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ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

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I N D E X

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 17th day of October, 1960.

COMMISSION

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Ottawa, Ontario,
Monday,
October 17, 1960.

--- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please.

MR. FRAWLEY: I will call Dr. Ernest W. Williams, Jr., of New York.

THE CHAIRMAN: Before we proceed, I understand you have filed a submission this morning, Mr. Frawley?

MR. FRAWLEY: Yes.

THE CHAIRMAN: In case Mr. Sinclair and Mr. McDonald have not had theirs yet, I wish Mr. Cooper would make available to them the copy we have.

You have not got it, have you, Mr. Sinclair?

MR. SINCLAIR: No, I have not got ours yet.

MR. FRAWLEY: I want it quite understood, if I may say a word about that --

MR. SINCLAIR: We will need five or six copies, and maybe ten. I am sure my friend knows that.

MR. FRAWLEY: There is no question about that. I would like it understood that to comply with the Commission's direction a copy was put in the mail to Mr. Sinclair. There are three memorandum. One copy was sent to Mr. McDonald, Montreal; one copy to Mr. Anderson in Montreal; two copies to me here, and one to Mr. Mauro in Winnipeg. In view of the fact Mr. Mauro is here now, I have given him one of my two copies.

As to the balance, Mr. Banks told me that in



1
2 view of the fact he had been up with his staff until 3
3 o'clock in the morning this last week, the main stock of
4 the briefs will not go out until today, Monday, of this
5 week. But it could conceivably be Tuesday, Mr. Chairman,
6 but the Commission's direction has been complied with and
7 they will certainly be up.

8 MR. SINCLAIR: I am afraid if ours has been
9 mailed in that way it has not got through to us, and I
10 was talking to my office this morning and it was not there.

11 MR. FRAWLEY: It should have received
12 exactly the same treatment as ours, having been received
13 in Ottawa at 10 o'clock the evening of the 15th, and it
14 went through customs on the 17th and was delivered to me
15 this morning.

16 MR. SINCLAIR: Was there pre-customs clearance?

17 MR. FRAWLEY: Duty-free customs, marked the 17th,
18 this morning. The Post Office said that they had no
19 alternative but to have customs clearance.

20 MR. SINCLAIR: This means, in Montreal, another
21 day, because there is no pre-customs clearance.

22
23 ERNEST W. WILLIAMS, JR., called

24 DIRECT EXAMINATION BY MR. FRAWLEY: Q. Dr. Williams, I
25 will read through this memorandum of your qualifications
26 and you will agree with it or disagree with it after I
27 have finished reading it.

28 You hold a Bachelor of Science degree, 1938;
29 Master of Science degree, 1939; Ph.D., 1951; all from
30 Columbia University. You have been teaching at Columbia



1
2 since 1947, attaining rank of Associate Professor in 1952
3 and Professor in 1958.

4 The books you have written are: With Marvin L.
5 Fair, Economics of Transportation, Harpers, 1950, revised
6 edition 1959; The Regulation of Rail-Motor Rate
7 Competition, Harpers, 1958; Freight Transportation in the
8 Soviet Union: A Comparison with the United States,
9 National Bureau of Economic Research, 1959.

10 You entered the government service in 1940 with
11 the National Resources Planning Board and served as general
12 editor and a contributor to its report Transportation and
13 National Policy, published in 1942.

14 During the war you served in the Program Bureau,
15 U.S. War Production Board, and later as Chief,
16 Transportation Division, U.S. Strategic Bombing Survey.
17 After the war you went with the U.S. Bureau of the Budget
18 with the title, fiscal analyst. Since going to Columbia,
19 you have continued as a consultant with various
20 government agencies. You served with the task force on
21 regulatory agencies in the First Hoover Commission of
22 1948 and prepared the report on the Interstate Commerce
23 Commission. You served in 1954-55 as a member of the
24 task force for the President's Advisory Committee on
25 Transportation Policy and Organization, popularly known
26 as the Weeks Committee. In 1959 you served as director
27 of the Commerce Department study of transportation policy.
28 In between you were a consultant to the Office of Civil
29 and Defence Mobilization. From 1956 to 1958, you were a
30 member of the New York-New Jersey Metropolitan Rapid



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2 Transit Commission by appointment of Governor Harriman.

3 You have testified before the Board of Transport
4 Commissioners in the Rate Base-Rate of Return and the Rate
5 Equalisation proceedings. Also before the Circuit Court
6 of Cook County, Illinois, in a case involving navigation
7 in the Port of Chicago and before the Joint Committee in
8 the Economic Report of the United States Congress. In
9 February of this year you were elected a director of ACF
10 Industries, Inc.

11 A. That is correct.

12 Q. Now, Dr. Williams, you were asked by the
13 provinces of Manitoba and Alberta to give some thought
14 to the preparation of a submission which would discuss
15 for this Royal Commission the railroad problem in Canada?

16 A. That is so.

17 Q. And you did accept that commitment and you
18 have prepared a memorandum which you have with you at the
19 moment and which has been filed with the Commission?

20 A. Yes.

21 Q. I would ask you, Dr. Williams, to proceed
22 to put that submission into the record in the fashion
23 in which you think best, and you are privileged and
24 entitled to read it and read all of it, omitting only
25 such parts, if any, as you think might be omitted.

26 Q. I should like to read it in full and to
27 make a few interpolations at several points as I go along,
28 since upon seeing it in finished form it seems quite
29 possible that one or two things would well merit a little
30 bit of expansion.



1
2 The submission as appears on its face is
3 entitled 'The Railroad Problem with Special Reference to
4 Competition of Non-Rail Carriers and the Resulting
5 Distortion of the Rate Structure".

6 Its first head is "Similarity of Railroad
7 Problems".

8 The structure of railroad freight rates is not
9 capable of being considered fruitfully in the abstract.
10 Both the structure and the resulting average level of
11 rates will have an impact upon the volume and composition
12 of traffic, not only in the long run because of the effect
13 upon the rate, character and location of economic
14 development of various types, but also in the short run
15 because of the effects upon the distribution of
16 competitive traffic among the several types of
17 transport. Volume of traffic in comparison with plant
18 availability will affect the unit cost of operation, thus,
19 volume and average level of rates together will be major
20 determinants of railway net revenue. Hence, the search
21 for an equitable and effective freight rate structure
22 unavoidably seems to lead into a broad examination
23 of railroad transportation, not merely, but of the
24 character, capabilities and growth of competitive
25 transport as well. And as all forms are affected by
26 a variety of public policies, not only the regulatory
27 standards for the government of rail rates are
28 significant within the area of public policy
29 considerations, but those which affect the supply of
30 publicly provided facilities may also be relevant.



1
2 It would serve little purpose for a witness
3 familiar by study and experience with the United States
4 transportation scene to come before this Commission
5 unless it appeared that transportation problems in
6 Canada were sufficiently similar to permit applicable
7 conclusions to be drawn out of United States experience.
8 For such a witness, despite efforts to inform himself,
9 cannot profess an intimate knowledge of Canadian
10 conditions. There does appear, however, to be a close
11 relationship between Canadian and United States
12 transportation development. Transportation conditions
13 in the two countries are perhaps more similar than those
14 of any other two. Many of the geographic features
15 evident in the northern United States extend into the
16 more developed portions of Canada while even many of the
17 political factors which have a bearing upon transportation
18 policy have or have had counterparts in the United States.

19 On a broader scale, the major trends and
20 problems of the railroad industry appear to be almost
21 world-wide in character. The European literature is
22 full of discussion of the problems of rate making in a
23 competitive era and the tendency of European thought is
24 not greatly different from that of much recent writing
25 in the United States. The VIII Pan American Congress
26 held in Washington was marked by a series of papers on
27 economic conditions of railways in many of the countries
28 of Latin America, which suggested that they, too, were
29 suffering from problems of like kind with those of the
30 United States, although often of lesser degree. Doubtless



1
2 certain basic similarities in the railroad problem
3 everywhere account for the considerable interest
4 expressed abroad in recent United States government
5 studies of transportation.

6 Most countries of the world which have a well
7 developed railroad system of long standing today face
8 the problem of readjusting the structure of rates,
9 services and physical plant to the conditions presented
10 as a result of the development of newer forms of
11 transport. Everywhere this has been or is becoming
12 painful. Canada would appear to be no exception. At
13 the same time, its problems would appear to be most
14 closely akin to those of the United States because of
15 the parallels in the railway development of our two
16 countries. Since the railways of Canada have not yet
17 been presented with quite so pressing a growth of
18 competitive transport as those of the United States, a
19 larger opportunity should be present in Canada than is
20 now to be found in the United States to shape the
21 development constructively in the light of National
22 interests. A continuance of rapid economic growth
23 should assist to this end. I would hope, therefore,
24 that this Commission would examine sufficiently in
25 depth to do more than merely to treat symptoms.
26 Particularly, since Canada has traditionally suffered
27 from an overbuilding of transport plant, it is to be
28 hoped that its policies in the future will seek to
29 moderate rather than to exacerbate this significant
30 problem. For in an economy which seeks rapid growth,



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2 expenditures for performance of the transportation
3 function ought to be held to a minimum.

4
5 GENERAL CHARACTERISTICS OF RAILROAD PRICING

6 Early in its history, the railroad industry
7 was recognized as one that operates at decreasing costs
8 as volume of traffic increases. This is primarily a
9 capacity phenomenon and was so recognised in many of the
10 early writings upon the subject. To lay down a railway
11 is to create a sizeable potential line-haul capacity --
12 a minimum potential capacity which cannot be avoided if
13 there is to be any railroad at all. The capacity of
14 rolling stock, motive power and terminal facilities can
15 be adjusted more closely to the volume of traffic
16 actually in prospect than can the permanent way itself.
17 It is not nearly so clear that there are economies of
18 scale in the railroad industry if by scale we mean a
19 multiplication of the line-haul capacity of a given
20 segment of line. Indeed, there is much confusion in the
21 literature upon the subject of economies of scale
22 because of definitional difficulties.

23 Now, I think I might interpolate there, if I
24 may, just a clarifying example, both of the term
25 "capacity phenomenon" and of the term "economies of
26 scale".

27 If, for example, we had a single track
28 railroad and that railroad were loaded to 60% of its
29 capacity, and if we had a double track railroad also
30 loaded to 60% of its capacity, the evidence seems to



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2 suggest that the double track railroad working at the
3 same percentage of capacity is not notably more
4 economical than the single track railroad; that is to
5 say that there do not appear to be scale differences in
6 the cost of operation when the two railroads are loaded
7 to a similar proportion of capacity.

8 On the other hand, if we take those same two
9 railroads and increase the utilization from 60% of
10 capacity to 80% of capacity, then we get a reduction of
11 unit costs in either case. That is what we refer to as
12 capacity phenomenon.

13 Now, it could well be that there are some
14 economies of scale. They are very hard to detect.
15 However, in comparisons of railroads of different
16 densities and different basic plant investments -- some
17 single track; some multiple track -- we apparently have
18 a wide range in which the economies of scale do not
19 disclose themselves.

20 On the other hand, with changes in the rate
21 of utilization of a given plant, we do find significant
22 changes in unit costs.

23 But the capacity of a line of railroad can be
24 gradually increased by the lengthening of passing
25 sidings and the improvement of appurtenant facilities to
26 permit heavier trainloads, and by the multiplication of
27 sidings and the provision of signalling to permit an
28 increase in the number of train movements. If physical
29 facilities are kept abreast of traffic growth, this
30 development will, prices and other factors being constant,



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2 result in lower unit costs. Railroads require large
3 volumes of traffic, therefore, in order that they may
4 realize the full economy which is latent in the railroad
5 technology. In this respect, they are not greatly
6 different from other forms of transport which require
7 the construction of a substantial improvement of the
8 ways or routes which they use. But in highway
9 transportation, e.g. the provision of the way that is,
10 the highway itself, is characteristically separated from
11 the conduct of the operation.

12 So that we are not accustomed to look at
13 highway transportation in the same overall way in which
14 we would look at the conduct of a railway operation.

15 This general characteristic of railway
16 enterprises, as respects its economic structure, has
17 everywhere led to two major lines of policy designed
18 to improve the economic position of the carriers: 1)
19 the construction of feeder lines to nourish main routes,
20 and 2) discrimination in rates to encourage the
21 development of a broader traffic base. That is, to
22 secure the movement of low grade commodities which
23 would not move at average rates. To take point one
24 first, under most circumstances, a main route laid,
25 across country will not generate from locations upon it
26 a traffic commensurate with the minimum of installed
27 capacity. Adjacent territory must be tapped and its
28 product fed into the stream of commerce which can be
29 made to flow over the main route. Within proper limits,
30 system unit costs ought to decline as main routes are



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Williams, dir.
(Frawley)

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2 better loaded, and both carrier and public should
3 benefit. Particularly where competitive rail systems
4 were developed, however, a competition in branch-line
5 development to preempt territory tended also to develop,
6 looking to the control of traffic to be generated in
7 the future. Seldom was such competitive building held
8 in check. Indeed, both in Canada and the United States,
9 such competitive expansion was actively aided and abetted
10 by governments. To a competitive expansion of this sort
11 we must, in the United States, attribute much of the
12 60-70,000 miles of line out of 220,000 miles now judged
13 by students of the railway problem to be excess. In
14 Canada, it would appear that National and provincial
15 policy tended to produce a more marked over-stimulation
16 and that less progress has been made in tailoring the
17 system down to required size since the close of the
18 period of most active railroad building.

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2 It early appeared that rates based upon
3 average costs of a newly developed railway, which was
4 working well below capacity, would attract only a limited
5 volume of traffic, generally traffic of high value
6 capable of standing high tolls. If volume were to be
7 achieved, which would load the plant more nearly to
8 capacity and thus result in lower average unit costs,
9 lower tolls must be employed to encourage the movement
10 of commodities which were less able to bear transpor-
11 tation charges. Since such traffic would be added
12 volume, it would increase the aggregate cost by less
13 than the added volume times the previous average unit
14 costs. Hence, lower rates could be made and, if
15 successful in generating volume, would improve net
16 revenue. Since kinds of traffic movement could be
17 distinguished for rating purposes it was not necessary
18 to reduce the existing rates upon such traffic as was
19 capable of bearing such rates. Discrimination was in
20 order. And it could be shown that, if the rates
21 which were named to generate new traffic were above the
22 added costs occasioned by such traffic and if total
23 earnings were held to a reasonable level, all would
24 benefit.

25 Q. I notice in the sentence you use the
26 words "added costs occasioned by such traffic." We
27 have been told here about out-of-pocket costs, variable
28 costs, incremental costs, direct costs. Would you
29 please tell us what you mean by the use of the words
30 "added costs" as distinguished from the definitions that



1
2 I have just given you?

3 MR. SINCLAIR: Would you do them again?

4 MR. FRAWLEY: Out of pocket costs, variable
5 costs, incremental costs and direct costs.

6 A. I think all of these terms are inclined
7 to give us difficulty and that is true certainly not only
8 of the laymen but also true of the economists as well.
9 We sometimes get tangled up with a variety of definitions
10 for some of these terms. I used the term "added costs"
11 pretty much synonymously with the term "incremental costs"
12 that you ordinarily employ. What seems to be relative
13 at this particular point would be a comparison of the
14 total costs of handling the expanded volume of traffic
15 with the cost that was encountered in handling the
16 lesser volume at an earlier point. The difference
17 between the two is the added costs occasioned by the
18 traffic developed.

19 The problem is not, however, in any sense a
20 simple one because when we undertake to make rates we
21 are, of course, making rates for the future which are
22 expected to move traffic in the future. In consequence
23 of that fact it is necessary, if such a rate is to be
24 intelligently made to estimate what the probable volume
25 of traffic will be to induce that rate and what the
26 effect of that increase will be on the costs or
27 looking to a rate made for the future; and all the
28 elements here required to be estimated.

29 Now, as compared with the direct, out-of-
30 pocket cost as we have come commonly to employ it in the



1
2 United States, when we use the term we may almost
3 read into it what we are talking about as out-of-
4 pocket costs developed by the ICC formula. These
5 out-of-pocket costs have created a certain amount of
6 controversy among economists as to what interpretation
7 might be placed upon them and the principles which the
8 Commission used in devising them. Essentially, No. 1,
9 they are average territorial costs as we total them and
10 regularly publish them through the Commission. Second-
11 ly, the representated concept that the economist might
12 perhaps call long-run marginal or out-of-pocket costs.
13 I think it is not clear that they would even coincide
14 with an economist's cost at all.

15 The run of time here, incidentally, is of very
16 considerable importance as is also the amount of change
17 in volume of traffic that we may be talking about. If
18 we are talking about a very small increment of traffic
19 then it may well be that the added costs or variable
20 costs will be quite small. If we are talking about a
21 large increment of traffic it may be quite large and
22 if we are talking about a very large increase the volume
23 of traffic occasioning large expansion of plant it may
24 be that the added costs come very close to the out-of-
25 pocket costs.

26 Now, the out-of-pocket costs which the
27 Commission has developed is essentially a long-run for-
28 mula designed to cope with assurance with very large
29 increments of traffic. It, therefore, is a cost which
30 takes into account not only those costs which the



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2 Commission has detected by its statistical studies
3 to be variable costs but it takes into account also
4 an allowance of four per cent return on the investment
5 in 100 per cent of the motor power and rolling stock
6 and 50 per cent of the permanent way and structures.
7 That would put it in the category of a cost that could
8 be related to what I referred to here as the added
9 costs, but only if one is talking about a very large
10 increment of traffic over a long period of time
11 occasioning a substantial plant expansion as well as
12 a substantial increase in the proportionate increase
13 in the rolling stock and motive power employed. Many
14 of those terms will tend to differentiate themselves
15 because of differences in size of the increment of
16 traffic that is held in the mind, or the length of time
17 it is held in mind.

18 Those are perhaps the most difficult problems
19 in handling the extending of the cost of figures.

20 What I would refer to here as added costs
21 would, of course, be those costs added by the sub-
22 stantial increment of traffic that was concerned with
23 the rate change referred to.

24 COMMISSIONER MANN: While we are on the sub-
25 ject of terminology, could you give us a definition of
26 avoidable costs?

27 THE WITNESS: Well, avoidable costs require
28 that we look at the thing from the other side. Essen-
29 tially what we are talking about there is the cost of
30 a reduction in the volume of traffic or a shedding of



1
2 traffic, a n y section of which hopefully the costs
3 of the handling of the remaining volume are lower than
4 the costs of handling the volume before. The avoidable
5 costs would be the opposite of added costs, that is,
6 the amount of costs that did appear from the cost
7 structure as a result of the essential change in the
8 volume of traffic. It need not be necessarily accepted
9 as essential change will look exactly the same as the
10 upward changes because the problem, the shedding costs,
11 is sometimes more difficult than the problem of controlling
12 costs in the face of an increase in business.

13 COMMISSIONER PLATT: While we are on defini-
14 tions, would you mind defining average cost as well?

15 THE WITNESS: Well, the economist tends to
16 use average costs, several types of average costs. When
17 we speak of average total cost, for instance, this is
18 fairly simple, it simply takes the total cost of all
19 kinds encountered and there may be some slight dis-
20 agreement among economists as to whether certain things
21 are costs or not costs. But, leaving that, we would
22 take the total costs including the imputation of rolling
23 and equity capital and divide it into the volume of
24 business and we get the unit average total costs.

25 However, we refer on the other hand to
26 avoidable variable costs and we are referring to the
27 average costs per unit which are expected to vary as
28 there are changes in the volume of traffic either upward
29 or downward. Customarily, for the purpose of simplicity,
30 we take the average variable costs as they have been



1
2 ascertained at certain levels of traffic that are
3 statistically observable and apply the other changes
4 that may come along necessary to the relationship be-
5 tween forecast and outright costs to haul with the
6 changes in the level of business that is being handled.
7 Those are the principles that we ordinarily employ.

8 MR. FRAWLEY: Q. Thank you. Will you
9 continue?

10 A. For the policy of discrimination would
11 lead to lower average unit costs and ultimately to a
12 reduction in the higher rates in order to keep earnings
13 in check.

14 That probably calls for a little explanation.
15 The direction of the unit costs as a result of the
16 capacity phenomena, that is, if the railway plant is
17 led by taking on additional traffic from discriminating
18 rates, the average unit costs follow and the railroad
19 is in fact performing a service more efficiently, it
20 is producing more ton miles or it is producing a larger
21 increment of ton miles than the increase of cost which
22 is observed in connection with that. In consequence,
23 not only has there resulted from the policy of discrimina-
24 tion of freight to move lower grade products at rates
25 that are not at the average level which has implications
26 for economic development but, secondly, because of the
27 reduction of unit costs as a result of increasing
28 efficiency and the use of plant, there is a reduction
29 in unit costs that should benefit all traffic whether
30 moving at average rates or above average rates.



1
2 The classification of freight, therefore,
3 became early an established practice and was
4 increasingly embellished over the years. In addition,
5 low-grade commodities and heavy volume movements were
6 increasingly accommodated by commodity rates which
7 removed them from the classification structure and,
8 on occasion, no doubt, extended the range of dis-
9 crimination practised.

10 I might say I use the word "discrimination",
11 I think in all cases, in the sense that the economist
12 uses the term. It is not used with a sense of undue
13 or unjust discrimination. There is no such meaning
14 at all. I am speaking of discrimination in respect
15 to a differentiation of rates in relation to the unit
16 costs.

17 Particularly was this true of commodity
18 rate structures, of which there are many examples
19 in the United States, where commercial and market com-
20 petition were allowed in large measure to determine the
21 rate relationships.

22 Early rate making policy frequently differ-
23 entiated the levels of rates with some regard
24 to differing regional conditions and as between main
25 and branch lines in recognition of differences in cost
26 levels. Public policy has generally forced upon
27 railways a large amount of additional discrimination,
28 which they would not have resorted to were they left
29 to govern rate making policy purely in their own
30 interests. Thus, mileage scales have often been



1
2 uniformly applied over large areas, equally to light
3 traffic branch lines where good loading of the plant
4 cannot be secured so that average unit costs must remain
5 high, and to heavy traffic main lines where low unit
6 costs can be achieved. Thus, some traffic is called
7 upon to subsidize other traffic through an averaging
8 process. In the class rate adjustments of the 1920's
9 and early 1930's the Interstate Commerce Commission
10 generally prescribed arbitraries for application over
11 short and weak lines and in limited territories, such
12 as northern New England and Michigan and the Florida
13 Peninsula. This was a response to corporate need,
14 however, where separate companies were compelled to
15 rely on such low-density and frequently low-grade
16 traffic for the bulk of their revenues. Where similar
17 conditions existed on lines operated by major systems
18 it was considered just that main-line traffic should pick
19 up some of the cost of branch-line operation. Further
20 to accentuate the problems, the pressure to furnish
21 service beyond that which traffic will support at
22 established levels of rates has often been most severe
23 in respect of light-traffic routes and has seldom
24 been a matter of consequence on routes which are well
25 enough supplied with tonnage to occasion a considerable
26 offering of service.

27 The general phenomena just described were
28 brought to a high degree of development under the
29 philosophy of regulated common carriage in the period
30 just before non-rail forms of transport began to



1
2 develop and to enter into competition with the rail-
3 system -- a philosophy which had come largely to be
4 shared by carriers and regulatory authorities alike.
5 This was described by me for the Department of Commerce
6 in Rationale of Federal Transportation Policy, April,
7 1960, as follows:

8 "There are a number of aspects of that
9 philosophy which seem to have escaped general
10 understanding. Railroads had, along with their
11 associated express companies, become common
12 carriers of virtually all commodities known
13 to commerce, in the absence of any suitable sub-
14 stitute services until the twenties. The public
15 had, apart from local cartage and urban transit
16 and a few specialized bulk water carrier ser-
17 vices, become almost wholly dependent upon the
18 railroad system for its transportation require-
19 ments. It was both natural and appropriate
20 that there should be placed upon the rail car-
21 riers the obligation to serve all without dis-
22 crimination and to do so at reasonable and not
23 unjustly discriminatory rates. Both the rail-
24 roads in the development of their own policies
25 and the regulatory authorities in accepting and
26 further embellishing those policies, treated
27 the railroads so far as possible as unified
28 systems within broad territories catering to
29 the entire consist of traffic generated by
30 the economy.



"Under the circumstances, so long as the rate level was maintained high enough to permit the earning power needed to keep railroads abreast of the needs of the traffic, great latitude could be used in fixing rates for particular hauls and particular classes of traffic. The costs of handling particular traffic could be and were ignored in considerable degree and, under the conditions, little effort was made to ascertain the costs for particular hauls or services. Measures of operating efficiency which were independent of revenues were used to control operations. And the method of comparison served to enable rates for particular traffic movements to be brought into what appeared to be an equitable relationship to the remainder of the structure of rates. Thus, the making and regulation of rates took on the characteristics of an art, and the principles which were applied were more nearly those of equity than of economics.

"Discrimination, in the economic sense of disparity of rates from the costs of the particular services rendered under the rates, was widespread and had the approval of public acceptance and regulatory precept. It was inherent in the process of classifying freight in which, although relative cost of service on the average was given weight, the supposed value of the service doubtless was a more significant factor. It was inherent in the extension of mileage scales of rates to more and more of the traffic- scales in which characteristically for the lower classes the short-



Williams, dir
(Frawley)

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1 haul and very long haul rates were below
2 cost, while the rates for middle distances on
3 the higher classes were well above cost. It was
4 inherent in the application of the same level of
5 rate to light traffic branch lines as to high den-
6 sity main routes and in the charging of like rates
7 for the occasional carload as for the continuous
8 mass movements of basic commodities which moved
9 at lower costs. The whole formed an integral
10 system of rates made up of long-established
11 relationships to which business had adjusted it-
12 self and upon the continuance of which it ex-
13 pected to be able to rely. The system was
14 based upon internal subsidization, that is, the
15 subsidy of some traffic movements on which rates
16 were below cost by others on which rates were
17 above cost. In short, the costs of supporting
18 the railroad system were distributed upon
19 classes of traffic, communities and particular
20 hauls in rough accord with the supposed
21 ability to pay. And such a system was widely
22 believed to promote the freest movement of
23 commodities, the widest range of competition
24 in distribution and the maximum stimulus to
25 economic growth."

26 COMMISSIONER MANN: In this passage you
27 have just quoted from when you use the terms "below
28 cost" and "under cost" is that above and below fully
29 distributed cost?

30 THE WITNESS: No, indeed. I would have
in mind the added cost in the sense in which I used
the term, I would not say it is a question of -- you



1
2 have the fixed cost, your overhead would have been dis-
3 tributed cost class of traffic.

4 MR. SINCLAIR: Does that apply in every part
5 of the submission? Have you not changed the defini-
6 tion in different places or is your answer to apply to
7 every part?

8 THE WITNESS: The definition of costs, oh, I
9 dare say it does possibly differ in one place and another
10 here. However, the meaning is as I have just stated it.

11 MR. SINCLAIR: Cost means added cost through-
12 out this quotation; is that correct?

13 THE WITNESS: Well, not exactly added cost
14 if one is dealing with this stratum of traffic, no.
15 One cannot, after all, analyse a complete expanding
16 transportation system, break it into these parts and
17 do it for ordinary purposes on a strictly added cost
18 basis. It would be more proper there to use the term
19 "variable", I think, than added cost. This is an
20 instance perhaps since we are not talking of fluctuations
21 and traffic volume, added cost terminology is not quite
22 as pertinent as at other points. What is meant here,
23 however, is not what we all talk of as fully distributed
24 costs but what we talk about as the variable costs
25 associated with the movement since the distribution of
26 the overhead is not the full phenomenon that I referred
27 to here. I might say there have been and are in the
28 United States substantial numbers of rates which move
29 traffic which are below the variable costs of performing
30 the service.



1
2 Development of Competition: It will be
3 observed that the system was depended upon a condition
4 in which all characters of haul were embraced within
5 a single regulated system which the public was compelled
6 to use for virtually its entire transportation require-
7 ments. It was essential that the shipper be unable
8 to perform any significant amount of transportation
9 for himself. It was essential, also, that the com-
10 petition of non-rail carriers be sufficiently sporadic
11 in locational incidence so that it might be treated as
12 an exception. In both the United States and Canada water
13 competition via the Great Lakes and connecting channels
14 was undoubtedly the most important exception, but so
15 far as it was in fact competitive with railroads this
16 transportation was capable of being brought under
17 some degree of control and its package freight rates
18 differentially related to the rail rates.

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Both in Canada and the United States, the necessary conditions for the effective application of the traditional principles of railroad rate making began to be destroyed with the development of competition by other forms of transport upon an increasing scale. In the United States, the volume of intercity truck transport was first estimated in 1926 at 5 billion ton miles compared with a total of 765.8 billion for all forms of transport. Rail traffic in that year was estimated at 64.1 per cent of total. By 1940, truck traffic had grown to 62 billion ton miles and the rail share of the total had declined to 46 per cent. In the post-war period rail traffic has fluctuated at a level between 550 and 707 billion ton miles, but appears to show a gently declining trend, since traffic at the peaks and troughs of the later cycles appears to become regularly somewhat lower than for the preceding cycle. Total volume of transportation, however, increased approximately 40 per cent from 1945 to 1956. More than this entire growth is accounted for by the growth of non-rail forms of transport. Truck transport, for example, quadrupled between 1945 and 1956. Under these circumstances the rail share of the total declined to 41 per cent in 1956 and 40 per cent in 1957, the latest year for which we have data covering all forms of transport.

I might interpolate here, that the percentages which I show in this submission will not agree with the percentages ordinarily published by the Association of



1
2 American Railroads for the reason that I have included
3 in the total U.S. Domestic Transportation the ton miles
4 generated by coast-wise and intercoastal steamships
5 service. Our estimates of that have not been very
6 perfect, and in some years have been hitherto
7 unavailable, but that transportation is certainly an
8 important part of the whole picture, and it has always
9 seemed to me it ought to be included. Consequently,
10 the rail shares which I show here are somewhat lower
11 than those which are published by the American Railroad
12 Association. The result of including that volume adds
13 some 250 billion ton miles in most years to our total
14 transportation domestically in the United States, and,
15 as a result, the railroad share calculates to a smaller
16 figure.

17 Q. And that is shown on appendix "A" at page
18 42?

19 A. That is right.

20 Estimates prepared by the Dominion Bureau of
21 Statistics indicate that in Canada the total volume of
22 transport measured in ton miles increased somewhat more
23 rapidly than in the U.S. in the post-war period, the
24 increase being of the order of 66 per cent between 1945
25 and 1956. During the same period truck transportation
26 increased at a slightly slower rate than in the United
27 States and the rail share fell by 22 percentage points,
28 or virtually the same as in the United States. As a
29 result of the more rapid growth of total traffic in
30 Canada, however, rail traffic had been trending slowly



1
2 upward rather than downward until the total volume fell
3 in 1957 and 1958 and, simultaneously, in a mere two
4 years truck traffic increased nearly 40 per cent.

5 MR. SINCLAIR: Could I interrupt there to ask
6 this, because it may save time: was an adjustment made
7 in that calculation for the change in the basis of
8 reporting the truck tonnage in Canada?

9 THE WITNESS: No, I used the quite recent
10 publication of the Dominion Bureau of Statistics which
11 I assumed was a consistent showing as to those ton miles.
12 If it had an inherent shift of method of base, I fear I
13 failed to detect it. In the United States data there is
14 a shift in the last couple of years which makes our late
15 figures not entirely comparable with the earlier ones,
16 and we have been hoping to get a reconciliation from
17 the Interstate Commerce Commission shortly which would
18 enable us to mesh those with confidence. That sort of
19 thing not infrequently has happened with the motor
20 carrier series. . . I take it in Canada, as in the
21 United States, those are estimates, and we regard ours
22 as pretty rough because we have to pick some samples
23 through the Bureau of Public Roads checks and we have
24 to blow that up and get the ton miles which sometimes
25 we treat as a statistic when it is really no more than
26 an educated guess.

27 MR. FRAWLEY: Q. What you say is, these
28 figures are taken from the most recently published
29 material of the D.B.S.?

30 A. So far as I am aware, that is true, yes.



1
2 In the United States, truck traffic has
3 shown only modest growth since 1956, but the recession
4 characterizing a good part of the period precludes
5 drawing any conclusions from this fact. It appears
6 that Canadian railways have not yet felt the full
7 brunt of truck competition for, in 1958, truck ton
8 miles were but 21.2 per cent of rail ton miles whereas
9 in the United States this percentage stood at 42.6. The
10 Canadian rail share of total traffic is still well above
11 the share of United States railroads.

12
13 Consequences of Competition

14 The development of competition from non-rail
15 forms has been far more damaging than the ton-mile
16 figures would suggest. Especially is this true of the
17 effects of truck, products pipe line and (in the United
18 States) certain inland waterway competition. By 1951
19 regulated motor carrier revenues per ton miles in the
20 United States already exceeded 5 cents, hence it would
21 not be unreasonable to calculate the whole of the inter-
22 city truck ton miles (including private and exempt) at
23 4 cents a ton mile. On this basis, truck freight
24 revenue equivalent would have passed rail gross freight
25 revenues in 1953. By 1957, with revenues per ton mile
26 at a higher level, truck ton miles of 260 billion taken
27 at 4.5 cents per ton mile would imply a revenue
28 equivalent of \$11.7 billion compared with railroad
29 gross freight revenues of \$9.4 billion. When looked
30 at in revenue equivalents the significance of truck



1
2 transportation is more readily appreciated. Judging
3 from the ton-mile data reported by the Dominion Bureau
4 of Statistics and applying revenues per ton mile at
5 United States levels, truck revenue equivalents in
6 Canada must have approximated 90 per cent of rail gross
7 freight revenues in 1958.

8 As the revenue data suggest, competitive forms
9 of transport do not attack the structure of rail traffic
10 across the board, but rather in a highly selective
11 manner. Each form of transport has a different economic
12 structure, a different set of cost functions and a
13 different range of service capabilities. Hence,
14 beginning in a situation where railroads handled
15 virtually the entire stratum of traffic, the newer forms
16 have selected attractive portions of that stratum upon
17 which to focus their competition. While truck and
18 water carriers are wont to complain about selective
19 rate cutting on the part of railroads, it is the
20 selectivity of the service offering of the newer forms
21 of transport that is breaking down the traditional rate
22 structure and creating great difficulties for the
23 railroads. To quote again from the Department of
24 Commerce Rationale:

25 "The increasing availability of public rights-
26 of-way open to all who found an advantage in
27 using them offered an opportunity not only
28 for the development of new systems of
29 transport, but also an opportunity to whittle
30 away at the established common-carrier system
until the basis of its support became



1
2 uncertain. Had the railroad rates been
3 adjusted even approximately to the costs of
4 the particular servoces which were priced,
5 the new competitors would have been able to
6 divert traffic and participate in the
7 expanding volume of traffic generally only
8 when their costs were low enough to enable
9 them to match or under-cut the rail rates or
10 where they offered a superiority of service
11 for which the shipper or traveller was willing
12 to pay a premium. The course of development
13 would have been quite different from that
14 which occurred. But both the regulatory
15 authorities and the railroads preferred to
16 ignore the trends and their implications, and
17 neither undertook to set in motion broad
18 correctives in the rate structure. To
19 compound the difficulty motor common carriers,
20 faced with the problem of filing initial
21 tariffs under the Motor Carrier Act in 1936,
22 found that substantial adoption of the rail
23 rate structure afforded the most practicable
24 means of meeting the proceduereal requirements
25 as well as to develop their traffic volume by
26 diversion from railroads. Motor carriers,
27 of course, confined their holding out to the
28 relatively high valued traffic only, except
29 on the shortest hauls, for to do otherwise
30 would have opened them to the obligation to



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2 carry unprofitable traffic on a considerable
3 scale. The regulatory system, following the
4 view generally that carriers were entitled
5 to meet their competition but not to undercut
6 it, was capable of placing considerable
7 restraint upon rate competition and to
8 preserve much of the rate structure from
9 major alteration by the action of the
10 regulated carriers. The maintenance of rail
11 and motor common carrier rates upon a
12 substantial parity, however, without
13 reference to the relative cost of service by
14 the two forms of transportation, undoubtedly
15 promoted the development of motor carrier
16 traffic at the expense of rail to the extent
17 that it prevented the cost advantage of the
18 railroads, where it existed, to be made
19 manifest in the rate.

20 "Notwithstanding the extension of regulation
21 to other than the rail and pipeline forms of
22 transportation, however, substantial areas
23 have been left unregulated. Indeed, nearly
24 half of the intercity freight transportation,
25 measured in ton-miles, appears today to fall
26 in the categories which are untouched by
27 economic regulation. Much of this trans-
28 portation is private carriage by motor or by
29 water, although substantial traffic is also
30 moved on a for-hire basis within certain



1
2 of the exempt areas. The regulatory system
3 affords poor protection against the growth
4 of private and exempt transportation. Yet
5 the rate structure which regulated carriers
6 and the regulatory authorities alike have
7 sought to preserve, extends an open
8 invitation to the growth of private
9 transportation and of specialized
10 transportation in the exempt areas, as well
11 as marginal and outright unlawful operations.
12 Naturally this growth tends to occur first
13 in the areas where the regulated rate
14 structure lies farthest above the cost of
15 performing the service and therefore attacks
16 directly the traffic hitherto relied upon
17 to achieve cross-subsidization within the
18 common-carrier system. In short, it tends
19 to divert the most remunerative business and
20 to reduce significantly the base of high
21 revenue traffic upon which common carriers
22 can rely in order to subsidize the less
23 remunerative and losing portions of their
24 business. This process, already far advanced
25 in the railroad industry is evident also in
26 the motor and water carrier industries and
27 may be expected to continue to grow in the
28 absence of substantial change in the rate
29 structure."

30 Q. Would you turn back to page 14: in the



1
2 bottom paragraph you refer to exempt areas?

3 A. Yes.

4 Q. That expression may not be self evident,
5 and I wonder if you would explain it?

6 A. We have a number of exemptions under
7 Part II and Part III of the Interstate Commerce Act,
8 of which I might mention the most important. Under
9 paragraph 2 it relates to motor carriers and is, in
10 fact, the Motor Carrier Act of 1935 as amended. The
11 principal exemption, the one which has given most
12 trouble to carriers, is what we know as the agricultural
13 exemption which, in effect, exempts from economic
14 regulation -- that is, regulation of rates as well as
15 the control of entry through the requirement of
16 certificates of public convenience or necessity --
17 or permits the movement of unmanufactured agricultural
18 products: fish or shell fish, as well as ordinary
19 livestock. That is a thing which went through a great
20 expansion and by interpretation of the courts as to
21 what falls within those categories, and which we tried
22 to at least hold within presently established limits
23 by an amendment to the definition in the Transport Act
24 of 1958, but the agricultural exemption is the most
25 important under which large amounts of truck traffic
26 move.

27 Under Part III of the Act, which relates to
28 water carriers operating in coast-wise, intercoastal
29 and inland service, there are two important bulk
30 exemptions which result in the greater part of that



1
2 water traffic being exempt from economic regulation.
3 Those are what we call the liquid bulk exemption which
4 exempts the bulk movement of petroleum and petroleum
5 products, chemicals and the like; and secondly what we
6 know as the dry bulk exemption which exempts the movement
7 of dry bulk commodities such as coal or various ferrous
8 and non-ferrous ores so long as not more than three such
9 bulk commodities are shipped in any one vessel or tow.
10 The consequence of that is that a very large part of our
11 inland water transportation and almost the whole of our
12 coastwise transportation become exempt under either the
13 liquid bulk or dry bulk exemption.

14 In general, highway competition attacks
15 remunerative hauls by railroad under a discriminating
16 rate structure under any one or a combination of the
17 following circumstances:

18 (a) High rated traffic on which rail rates
19 are above trucking costs for any length of haul;

20 (b) A considerable range of traffic in the
21 middle distances (say 200-400 miles) where distance
22 scales of rates tend to lie higher in relation to the
23 cost function than they do for shorter and longer hauls
24 under the tapering principle, but more importantly where
25 the rate scales lie in more profitable relationship to
26 truck costs than at longer and shorter hauls;

27 (c) Between major points on principal heavy-
28 density routes where the level of rail rates on the
29 averaging principle brings many of them well above cost
30 and where, if service to intermediate points is kept to



1
2 a minimum, exceptionally good truck load factors can
3 be secured.

4 Point (b) is illustrated by Appendix B where
5 the Docket 28300 scale of class rates prescribed for
6 use within the United States is contrasted with I.C.C.
7 carload cost scales for the Eastern district on 10-ton
8 carloads, a size of consignment directly competitive with
9 truck transportation. It will be observed that class
10 100 rates exceed three times the fully distributed costs.
11 Yet class 30 rates are at out-of-pocket costs for a 10-
12 mile haul, are slightly above fully distributed costs at
13 50 miles and lie above those costs to, and including,
14 400 miles. At 1000 miles, however, they fall below
15 out-of-pocket costs. This is illustrative of a
16 condition to be found in most distance scales constructed
17 upon conventional principles. The relationship of the
18 rate scale to the costs will alter over time.

19 Particularly is this true where percentage increases are
20 employed in the rates while a combination of wage
21 increases and technological change produces a greater
22 increase in terminal and way-freigh costs than in the
23 line-haul costs of through train service. This
24 phenomenon has been characteristic of the post-war
25 inflationary period. It tends to produce the effect,
26 in addition to those noted above, of making the railroad
27 attractive in lieu of truck for short-haul movements
28 which, on the lower classes, must be handled at a loss
29 by rail and could often be handled at lower costs by
30 trucks. To the extent these loss areas are expanded, a



1
2 burden is cast upon longer-haul traffic and the
3 measure of the percentage increase required on any
4 standard of revenue requirement is raised.

5 Thus, a general-purpose rail transport system
6 equipped with a rate structure built in the light of
7 such a comprehensive offering of service is faced with
8 quite specialized competition which attacks the high-
9 yield traffic while leaving the low-yield traffic
10 undisturbed. Under such circumstances, the whole
11 principle of internal subsidization commences to break
12 down. Further complications will appear where, as in
13 Canada, the network of improved highways is not yet
14 comprehensive. Under these circumstances, truck
15 competition has an uneven territorial impact.
16 Competitive reductions will tend to be made where the
17 competition is felt and not elsewhere and charges of
18 regional discrimination will be heard even when the
19 railroads have done no more than to attempt to meet
20 competition where it exists.

21 Effects of Non-Rail Competition

22
23 Given the rail rate structure, the
24 competition of motor carriers has been most heavily
25 felt with respect to the more desirable less car-lot
26 traffic and the high grade carload traffic moving
27 between principal points. This latter is reported
28 in the manufacturers and miscellaneous category.
29 United States railroads originated 44.3 million tons
30 of less carload traffic in 1923 when this business was



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2 at its peak. Revenues were not separately reported
3 for this class of business until 1928. In that year,
4 however, 37 million tons of l.c.l. (3 per cent of total
5 tonnage) produced 11 per cent of rail gross freight
6 revenues. By 1940 tonnage had fallen to 14.7 million
7 and by 1958 to 4.5 million. Meanwhile, the total
8 volume of such tonnage moving in intercity transportation
9 greatly increased. Miller estimates its annual volume
10 at some 125 million tons in recent years. (Sidney L.
11 Miller, "Federal Regulation of Domestic Small Shipment
12 Services - An Economic Appraisal," 25 Law and
13 Contemporary Problems No. 1, p. 125 (1960). This is
14 the mainstay of motor common carrier transportation.
15 Upwards of \$3 billion in annual revenue is probably
16 involved and the lot sizes and lengths of haul of a
17 considerable portion of this traffic would suggest that
18 it might profitably be handled by rail were a sufficient
19 volume capable of being diverted.

20 The adverse change in the composition of rail
21 traffic as a result of motor carrier competition is far
22 from easy to observe or document. The categories in
23 which traffic is reported for the commodity statistics
24 of the I.C.C. are broad and many of the items embrace
25 commodities of a wide range of value and level of rates.
26 Nevertheless, some insight can be obtained. The overall
27 data over the decade 1947-1956 show little except the
28 decline of animals and products and of less than carlot
29 traffic. The data are for tons originated in per cents
30 of total traffic:



THE CHAIRMAN: Order, please.

MR. FRAWLEY: Q. Now, Dr. Williams, we had reached the bottom of page 18?

A. Yes.

Q. Might I just stop you there. You have "tons", so that you might write "tons" at the top of page 19?

A. Yes, it is tons originated.

Q. "Tons" originated" at the top of that page 19"

A. Yes.

	<u>1947</u>	<u>1956</u>
Products of Agriculture	10.3	9.5
Animals and Products	1.3	0.9
Products of Mines	55.1	55.0
Products of Forests	5.7	6.1
Manufactures and Miscellaneous	25.8	27.6
Less Carlot	1.5	0.5
Forwarder	0.3	0.4

When examination is made of the detailed commodity breakdown, however, some evidence of rail loss of high class traffic is disclosed. For the decade, a decade during which considerable expansion of the gross national product occurred and both terminal years of which were years of high economic activity, the 27 groups of relatively high rated traffic shown in Appendix C declined in rail origination from 69.69 million tons in 1947 to 54.34 million tons in 1956,



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2 or 22 per cent. A further decline to 45.31 million
3 tons occurred by 1958. And this decline occurred
4 despite the fact that total manufactures and miscel-
5 laneous carload traffic increased slightly from
6 397.5 million tons in 1947 to 400.2 million tons in
7 1956. On the other hand, manufactured tobacco pro-
8 ducts represent a commodity in which, by dint of much
9 rate adjustment and a long series of suspension cases,
10 rail carriers came close to maintaining their absolute
11 volume of a high net revenue commodity. The greatest
12 part of the traffic in this commodity had, however,
13 already been lost by 1946. During the decade volume
14 slipped only from 390,000 tons to 370,000 tons and a
15 recovery to 420,000 tons was recorded by 1958.

16 MR. SINCLAIR: Could Dr. Williams tell us
17 where piggyback is carried under this table at the
18 top of page 19 of the brief?

19 THE WITNESS: On the top of page 19 of the
20 brief, we show piggyback up to the present so far as
21 it is traffic billed under a plan 2 arrangement in
22 the respective commodity classes. When it comes to a
23 railroad under plan 1, 3 or 4, in which event they
24 do not necessarily know its consist. . . they do not
25 know its composition under plan 1, necessarily . . . it is
26 thrown into manufactures and miscellaneous category
27 which is the last element in the manufactures and
28 miscellaneous groups. The carloadings of piggyback
29 are separately reported, but we do not yet report
30 tonnage originated separately for the piggyback traffic.



1
2 I suspect, considering its rate of growth, it will
3 soon be reported.

4 MR. SINCLAIR: On these figures, it would
5 be part of manufactures and miscellaneous, and part in---

6 THE WITNESS: It would all be in the broad
7 manufactures and miscellaneous category, in all likeli-
8 hood, unless some plan 2 traffic perhaps would be classi-
9 fied under products of agriculture or products of
10 forest. Plan 1 traffic would all be in manufactures
11 and miscellaneous.

12 MR. SINCLAIR: Thank you.

13 THE WITNESS: Not all unfavourable changes
14 in traffic composition are illustrated by actual
15 declines in the volume of high rated business. In some
16 instances, noteworthy changes in the relationship of
17 volume of articles of high value as compared with low
18 value items are to be found. Thus, food products,
19 n.o.s., declined only from 12.03 million tons in 1947
20 to 11.47 million in 1956. During the same period,
21 however, the tonnage of animal and poultry feed grew
22 from 20.56 million to 27.92 million. Similarly
23 manufactured iron and steel held almost steady at just
24 above 38 million tons, railroads participating not at
25 all in the movement of increased output. But their
26 volume of the lower-rated iron and steel scrap grew
27 from 20.56 million tons to 27.92 million and many
28 other scrap and waste products also showed increases.
29 Thus, the composition of traffic may be altered ad-
30 versely when carriers participate in the growth of the



low grade but not in that of the high grade traffic. Finally within every class of traffic it will no doubt tend to be the case that volume is retained for those lengths and conditions of haul where rail rates approximate or fall below truck costs whereas the traffic will be lost where the opposite is the case. Thus, internally in any broad commodity class the same tendencies will be at work which can sometimes be observed among classes.

The general sweep of events can be seen from another set of data. The ICC by a complicated procedure have for many years measured rail tonnage as a per cent of potential, taking 1928 as 100 per cent. This procedure assumes that in 1928 railways were handling as much of the tonnage produced as was potential for them. Later 1947 was used as a base year. If we mesh the two series, we get for 1954, the following percentages of potential as compared with 100 per cent for each in 1928:

Products of Agriculture	78.8
Products of Mines	83.6
Manufactures and Misc.	51.0
Less Carlot	41.4

I suggest that in relation to potential, measured as the Commission does, the decline in manufactures and miscellaneous in less carlot in comparison with potential has been far more severe than it has been in the other two categories shown.

The mesh is not exact, since it leaves out such



declines as may have occurred between 1946 and 1947. Although a cumulative increase of 107.7 per cent in freight rates was authorized from June of 1946 to August of 1957, average revenue per ton mile increased only 47.7 per cent during the same period. This was the result of hold downs and competitive reductions not merely, but of an adverse change in the commodity composition of traffic and a slight increase in average length of haul.

To quote further from the Rationale,

"An important consequence of the attrition of the more remunerative traffic of regulated common carriers has been to place heavy upward pressures upon the rate level for such traffic as cannot yet be handled by private or exempt forms of transportation. This contracting base of traffic which remains relatively tied to the common carriers has had to bear the brunt of inflationary pressures. The effect has been felt most seriously by the railroad industry from which traffic has also been diverted by competing forms of common carriage. The 'product mix' in railroad transportation has been changed materially, in consequence of which the increase of actual revenues per unit of service has been very moderate by comparison with the increase in the level of rates."

MR. SINCLAIR: Dr. Williams, again so I can understand your statistics, on page 20 in your table does manufactures and miscellaneous included in that



1
2 designate forwarder traffic, or has that been exempted?

3 THE WITNESS: The forwarder traffic is separate-
4 ly reported, and I group the forwarder traffic with less
5 carlot in this case as being more nearly related to less
6 carlot than to manufactures and to miscellaneous,
7 although it is received by the railroad ordinarily in
8 carload lots.

9 MR. SINCLAIR: In this table it is with less
10 carlot?

11 THE WITNESS: Yes.

12 This phenomenon in Canada has been called
13 regularly to the attention of the Board of Transport
14 Commissioners in general rate level proceedings.
15 Whereas in the United States traffic has felt abnormal
16 pressure because railbound either in view of relatively
17 low value which has traditionally entitled it to a rela-
18 tively low basis of rates, or because the lengths of
19 haul exceed those upon which trucks can compete
20 for other than high rated traffic, in Canada differences
21 in the state of development of the highway network in
22 various parts of the country seem to have added
23 differential territorial pressures. Hold downs on
24 certain basic commodities, extensively used in the
25 United States, undoubtedly benefit the shippers
26 thereof, but they increase the upward pressure of
27 rates upon the middle portions of the traffic stratum
28 just as does the loss of high rated traffic to other
29 forms of transport. The proportion of unprofitable
30 traffic tends to increase under the influence of hold



1
2 downs as it does, also, from the failure of distance
3 scales of rates to reflect the increasing proportion
4 of terminal to line-haul expense.

5 I might incidentally here make some small
6 explanation of this phenomenon to which I referred here
7 three times, since it may not be entirely clear from
8 the way it is stated.

9 We have had the experience in the United States,
10 certainly, that the major technological improvement
11 which has had important consequences for the railroad
12 industry in the postwar period has been the shift from
13 steam power to diesel power. The effect of that
14 shift has been quite marked in respect of line-haul
15 movement of traffic; the diesel locomotive being of
16 substantially different operating characteristics than
17 steam locomotive, and being capable of use in multiple
18 units, has had the effect of inviting us to increase
19 our trainloads and substantially eliminating a great
20 number of helper districts and spreading crews of
21 line-haul service over larger movement of line-haul
22 movement through heavier trains. We have benefited
23 to some degree from the faster movement of traffic over
24 the road.

25 Unhappily, no similar substantial improvement
26 has come about in connection with the operation of
27 terminal services by which I comprehend not only the
28 classification function performed in major railroad
29 yards, but also all of those functions associated with
30 placing their cars at shippers' sidings and in moving



1
2 loads from shippers' sidings; the whole range of
3 switching services necessarily performed in all
4 terminals where freight is originated or terminated.

5 In that situation, we have, it is true, in
6 some cases realized a slight improvement in cars in
7 that through switching, but on the whole that improve-
8 ment has been either absent or not been proven sub-
9 stantial. So, while we have realized some field and
10 maintenance economies, we have not realized many of the
11 other economies present in the line-haul application of
12 diesel power. And, although we have undertaken in
13 the United States -- and I am sure the same has occurred
14 in Canada -- some major yard improvements in basic classi-
15 fication yards at some major points, we have not found
16 ways and means to hold in check the costs of servicing
17 smaller terminals and performing the necessary switch-
18 ing services in reaching freight houses, team tracks
19 and industrial sidings.

20 Consequently, we have had a shift in the
21 structure of railway costs represented by an increasing
22 proportion of those costs being absorbed in the
23 terminal operations. That is what is referred to
24 here and is referred to also at a later point.

25 At the same time that these unprofitable
26 segments are increasing, high-grade traffic hitherto
27 relied upon for internal subsidization has been
28 diverted. Hence upon a continually declining
29 volume of freight for which alternatives are still
30 unavailable falls a steadily increasing portion of the



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2 burden.

3 With a stable total volume of traffic and
4 unutilized capacity, railroads face a dismal prospect
5 unless these trends can be altered substantially.
6 What we have been observing in the United States is a
7 process which, over the last three decades, has opened
8 an increasing volume of traffic to diversion. As
9 the process proceeds, particularly in an inflationary
10 period, it results in successive crises marked by the
11 threat of disappearance of railway net income. The
12 process of general increase resorted to as an emergency
13 procedure, however, merely expands the area of com-
14 petition. It is a self-defeating process, which in
15 the short run diverts additional traffic upon a widened
16 margin of competitive traffic and in the long run
17 increasingly discourages, if it does not destroy,
18 those industries still compelled to rely on rails.
19 Our effort to maintain traditional rate making principles,
20 for which carriers as well as the regulatory authori-
21 ties must be said to have shared responsibility, has
22 failed. Not only our railroads, but regulated motor
23 common carriers as well are tied to those principles
24 and the motor carriers are in their turn coming under
25 similar and increasingly heavy pressure. In the last
26 few years it appears likely that virtually all ex-
27 pansion in United States transportation has been in the
28 private and exempt areas and in unlawful operations
29 which are spawned in the contest between common carrier
30 rates as they now exist and the costs at which the



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2 favourably circumstanced can transport for themselves.

3 Although there has been increasing recogni-
4 tion of the necessity for sweeping changes in rate
5 structure by the United States railroads, there is
6 not yet broad agreement either on the necessities or
7 upon method. Much experimentation is under way, some
8 successes have been achieved, but not enough has
9 been accomplished to stay the course of traffic diver-
10 sion to non-rail forms. The necessity to improve the
11 railroad position and the growing belief that much traffic
12 has been diverted to more costly forms of transport
13 under traditional rate making policies led to the
14 1958 revision of the rule of rate making. Despite
15 much talk, however, the railroads have not yet seen fit
16 to suggest a comprehensive revision of rate structure
17 which would give expression to the cost characteristics
18 of their own industry and to the nature of the com-
19 petition which they face. Their efforts at experimen-
20 tation attract the sharpest opposition of competitors,
21 particularly of water and motor common carriers, for
22 these latter still fear the railroad industry more
23 than they do the growing body of private transportation
24 within their own forms.

25 Importance of the Railroad System: If what
26 we were observing in the present development of the
27 non-rail forms of transport were the displacement of
28 a technically inferior type which could be said to be
29 obsolete, the economist would not have cause to com-
30 plain although others might. This does not, however,



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2 appear to be the case. For each of the several forms
3 of transport -- motor, air and pipeline -- has
4 characteristics which fit it better than the railroad
5 for a part of the transportation job. No one, however,
6 nor all in combination, is capable of performing the
7 entire transportation job without an unacceptable in-
8 crease in the aggregate cost of transport. The
9 railroad retains an economic advantage in respect of
10 a wide range of essential traffic movements and its
11 comprehensive ability to meet a broader range of
12 requirements than any other form. It must, for the
13 foreseeable future, remain the backbone of the trans-
14 portation system. This is particularly true in a
15 country of great distances where long hauls of a large
16 variety of goods are necessary.

17 What is occurring, then, is that the railroads
18 are assailed by essentially specialized carriers each
19 capable of doing a part of the transport task more
20 efficiently than the railroads. A problem of adjust-
21 ment of great magnitude is presented in which the central
22 problem is to find ways to use each of the modes
23 severally and in combination, in such a way as will
24 conduce to the greatest efficiency in the discharge of
25 the overall transport function. The adjustment is made
26 the more difficult where, as in both our countries, we
27 have an excess of rail capacity in comparision with
28 present and prospective traffic. The tendency is
29 strong to create new capacity in the non-rail forms
30 without any noteworthy reduction of rail capacity, hence



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2 to increase the aggregate of transportation plant which
3 the transportation function must support at a rate
4 faster than the growth of traffic.

5 Canada has in its railroad plant and organiza-
6 tion an asset of great value. This is true not only
7 because the railroad system provides still more than
8 half of its freight transportation requirements at costs
9 below what other forms of transport could manage, but
10 also because the railroad technology has advantages
11 in the long-haul mass movement of general commodities
12 which cannot prospectively be duplicated. Moreover
13 the railroad technology is not mature, much less
14 obsolescent. Indeed technological advance in rail-
15 roading is as rapid if not more so as in other forms.

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The tragedy of the railroads, as it seems, has been a want of earning power adequate to support an optimum rate of application of improved technology coupled with the necessity to spread available earning power over excessive and partly redundant mileage. United States rail carriers achieved their prewar peak in freight ton miles in 1929 and enjoyed a net income of \$977.2 million in that year. Their 1956 traffic in ton miles was 37 percent above 1929, but their net income was but \$958.8 million. The 1929 income figure has been slightly surpassed indeed only in one year -- 1942. In the post-war period, moreover, year-to-year variations in net income have been substantial. Average annual net income for the decade of the 20's was \$684.7 million, for the decade ended with 1959 only \$630.3. Since 1939 the AAR index of charge-out prices and wage rates has more than tripled. Hence the buying power of the rail net income of recent years is hardly more than 30 per cent of their net income in the 1920's. Although substantial capital investment was made in that earlier decade, that is in the 1920's, the rate was not sufficient to bring the system fully abreast of technology. How much more disappointing is the record of the decade just ended in the face of the great opportunities which technological advances have opened out. The result is that we have no truly modern railroads with the exception of some recently built and isolated properties devoted primarily to the movement of iron ore. Hence we cannot judge from current



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2 performance the full potential of the railroad
3 technology although we must compare it and pit it in the
4 market, in the United States at least, against young
5 carriers of other types with a high level of modernity
6 in their equipment using basic facilities largely provided
7 by government and certainly far from starved as respects
8 capital inputs.

9 So far as concerns railroads, therefore, the
10 problem which faces them and governments alike is to find
11 means for adjusting their opportunities to the advantages
12 which they are capable of offering the public.

13
14 The Burden of Transition

15 Railroads have done much of what they could do
16 within the confines of law, precedent and institutions.
17 They have sought to meet competition where they found it
18 by rate and service adjustment with the benefit, in
19 Canada, of the added flexibility afforded by the agreed
20 charge. To the extent they have been able to retain
21 traffic at rates that more than cover the added costs
22 occasioned by that traffic, they have reduced the burden
23 upon shippers who are bound to use the rails. They have
24 sought to maintain solvency and meet the problems of
25 adverse change in traffic composition, growing passenger
26 deficits and price inflation through increases in those
27 rates where no great diversion of traffic was to be
28 expected in the short run. In this process they have
29 encountered opposition and administrative delay,
30 especially in the United States which appears among
other things to have necessitated larger ultimate rate



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2 increases than might otherwise have been necessary.

3 This process has bought time, but it does not
4 appear to have solved the underlying problems of the
5 industry or prepared the way for a new and tenable
6 position of some permanence. Moreover it has given rise
7 to conditions which are not only the cause of just complaint,
8 but which must have effects upon the composition and
9 territorial distribution of economic development and
10 therefore should merit careful attention. One way to put
11 it, by reference to the United States, is as follows:

12 Substantial, and until the last few years,
13 growing passenger service deficits, a growing less
14 carload deficit, and the whole burden of generating
15 necessary railroad net income are placed upon the carload
16 shippers of freight. Within this last group, deficit
17 traffic is to be found in every major commodity group.
18 These deficits also must be borne by the shippers of
19 such carload traffic as remains profitable. Within this
20 last group -- traffic in carloads that remains profitable
21 -- a growing portion for which competition is active with
22 other forms of transport is becoming steadily less capable
23 of bearing these increasing burdens of deficits in other
24 areas. Hence they fall with accentuated force upon the
25 shippers of traffic which is still rail bound --
26 generally long-haul traffic except of the highest classes,
27 intermediate grade non-bulk traffic which is not yet
28 attractive to trucks and low-grade bulk commodities
29 where a substitute water or pipeline transportation is
30 not available.



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2 This is, of course, a simplification to make
3 a point and is subject to many qualifications. Most of
4 its aspects would appear also to be present in Canada.
5 The Interstate Commerce Commission and the Board of
6 Transport Commissioners have regularly heard complaints
7 on this score in general rate level proceedings, but the
8 issue does not seem to have been squarely faced.

9 Under traditional common carrier and public
10 utility approaches it would appear that shippers who are
11 called upon to bear such a shift of burden are entitled
12 to relief. They are, of course, entitled in either
13 country to complain about the reasonableness and
14 lawfulness otherwise of any rate which they are called
15 upon to pay. But this avenue is likely to afford scant
16 comfort. For we have never had any practicable abstract
17 tests of the reasonableness of rates. Nor, if the value
18 of the service be said to measure the upper limit of
19 reasonableness, have we ever had abstract tests of value
20 of service which did not involve us in circular reasoning.

21 Q. I wonder if it would not be well to say a
22 word about what you mean by that question "circular
23 reasoning"?

24 A. Possibly so and I might illustrate it.
25 Attempting to measure the value of the service, of
26 course, it to compare the difference in price levels of
27 a commodity at two points between which the commodity
28 might be shipped. If we do that, of course, we run at
29 once into the difficulty that the price of the
30 commodity may well be not a reflection of the freight



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2 rate itself and certainly could be influenced by a
3 change in the freight rate. We have not, therefore,
4 an independent phase from that kind of a route.

5 The second possibility would be to compute the
6 cost of production or cost of manufacturing of a
7 commodity at two places between which transportation is
8 in view and between which the rate is to be made. Here
9 again, we run into the difficulty, number one, sometimes
10 we do not have a technical possibility of production.
11 Leaving that aside, where production is taking the
12 position, which is not infrequently the case, that again
13 certain of the costs of production are a reflection of
14 the freight rate, we have no independent approach to the
15 problem. There is also, of course, in respect of the
16 value of service the difficulty that is common in all
17 analysis of laymen that the value of the service to one
18 person or firm has seldom the same value to some other
19 person or firm. We would define value of service as to
20 what he would be willing to pay for that service rather
21 than be without it but in any attempt to approximate
22 value of service, it is necessary to resort to an
23 average of different demand conditions on the part of
24 individual shippers.

25 Instead we pursued a practical method which
26 certainly, at one time, could be justified as roughly
27 equitable. We could judge the reasonableness of
28 aggregate rail income by reference to a revenue
29 requirement on return on investment formula. We could
30 thus resort to comprehensible standards for determining



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2 whether rates as a whole were unreasonably high or
3 unreasonably low.

4 It has not been a problem which troubles us in
5 the United States in a good many decades because we have
6 not had railroad earning power that hauls on a level that
7 would be judged by two standards prior to public utility
8 as being unreasonably high so we have not had to contend
9 with it very much.

10 Given a reasonable aggregate level of income
11 it was possible to judge the individual rates by which
12 that income was produced in relative terms and to seek
13 an equitable apportionment among classes of traffic and
14 varieties of hauls. Classification standards and
15 distance relationships could be brought to bear in
16 establishing equitable relationships, among rates, given
17 a structure that in general was judged reasonable and
18 subject to the further test that no rates within that
19 structure should be so low as to cast a burden upon other
20 traffic, any rate could be tested to ascertain whether
21 it fell outside the pattern. This was done by the method
22 of rate comparisons. In effect the relative reasonableness
23 of a rate was tested by comparing it with rates in the
24 same or like commodities for similar lengths of haul.

25 Competitively compelled rates were always held
26 to be rates which cannot be offered with persuasiveness in
27 comparisons designed to test the maximum level of
28 lawfulness for a rate. Nor would I argue for any other
29 rule. So long as the competitively compelled rate was
30 very much the exception and the great bulk of all rates



were at or near the supposed maximum of reasonableness the rule worked well. The condition upon which the logic of the method depended, however, appears to have undergone a rapid rate of destruction. For competitively compelled and statutory rates within Canada appear to have become more nearly the rule than the exception. This conclusion is strongly suggested by the data set forth in the December 27, 1957, Judgment of the Board of Transport Commissioners File No. 48269, at p 28. As appears from the Board's Annual Report for 1959, p 34 this shows a growth in proportion of total revenues on carload traffic (as derived from sample waybill analysis) for the three categories of traffic at statutory grain rates, traffic at competitive rates and traffic at agreed charges from 23.6 per cent in 1949 to 42.5 per cent in 1956, 47.4 per cent in 1958. In 1959 the percentage was 51.7. This percentage can be calculated from Table I, page 3, Waybill Analysis, 1959, Board of Transport Commissioners.

Indeed these data break down as follows:

	<u>1949</u>	<u>1956</u>	<u>1958</u>	<u>1959</u>
at standard rates	12.3	11.5	10.5	8.6
at competitive rates	8.9	21.0	23.1	27.0
at agreed charges	2.4	10.0	13.8	16.1

Thus the increases in percentage of revenues chargeable to traffic not moving at rates useful in comparisons designed to test the maximum of reasonableness has been in the competitive rates and agreed charges.

Undoubtedly some rates in other categories



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2 would also be unavailable as valid components in rate
3 comparisons. The pattern from which departures may be
4 measured by the method of comparisons thus seems to have
5 become steadily less comprehensive. To the extent it has
6 done so, the logic underlying the traditional test has
7 become attenuated. Further development in this direction
8 will of course worsen the situation. As traffic moving
9 under non-statutory and non-competitive rates continues
10 to decline and as the pressures noted force these rates
11 upward in comparison with the total body of rates, the
12 traditional standard affords no check. Apparently
13 individual rates could continue upward within the pattern
14 until they dried up or diverted all traffic.

15 Such a situation extends a strong inducement to
16 find alternative means of transport and to readjust
17 marketing and purchasing plans to minimize transport. It
18 also becomes an increasing bar to expansion or new
19 development of economic activity in areas or in trades
20 which have no immediate transport alternative in
21 prospect regardless of what other advantages may exist
22 there. It makes an accepted procedure and standard
23 designed to insure equity serve instead, and increasingly
24 to justify inequity. Hence it appears that a new test
25 of reasonableness is required. This presents a problem of
26 great difficulty, for although there is an accepted
27 economic standard it is difficult of application.
28 Discrimination finds its justification, in the case of
29 shippers charged rates above cost, out of the proposition
30 that they will be required, at any rate, to pay lower



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2 rates than if equal rates were charged and volume
3 dropped to the level which such rates would attract.
4 Where rates move above this level, such shippers are
5 in fact being called upon to subsidize other classes of
6 traffic. The nature of this test and possible ways of
7 applying it will be discussed in other submissions.

8 Although the adoption of methods to mitigate
9 the increasing burdens falling upon a steadily smaller
10 share of the traffic is important, this is certainly
11 not enough. It does not solve the railroad problem.
12 Indeed since it suggests a mitigation of the shift it
13 would possibly, without more, face the carriers with
14 disappearing net income at some future point. The
15 railroad problem is an exceedingly complex one. There
16 appears to be no simple solution. Instead a complex set
17 of approaches appears to be called for.

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Possible Solutions: The burden of passenger service deficits, apparently of serious proportions in Canada as in the United States, not only tends to fall upon a diminishing portion of the freight shippers as indicated above, but in a more general sense inhibits the railroads from making manifest in the structure of freight rates their full economic advantage. Thus they are rendered more vulnerable to competitive diversion of their freight business not because of factors inherent in that service but by reasons essentially unrelated thereto. There is no reason other than expediency why any class of freight shippers ought to be called upon to bear deficits in the passenger service except to the limited and probably unascertainable extent to which they require such service for use or standby. There is room for question whether rail passenger services have any persuasive economic reasons for continued existence except in mass commuter and high-density short-haul movements of which the examples in Canada appear to be limited. The economics of air transport on the long hauls and of bus transport in local service are such that it would appear impossible to justify indefinitely continued large scale passenger service. There remains, however, a period of transition especially where the highway net is not yet complete, where conditions make rail service appear essential as a standby and where public attitudes are not yet prepared to countenance major discontinuance of rail service.



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2 Such conditions would seem to suggest a shift of the
3 passenger service deficit from being borne by the
4 freight service to a system of support by the general pub-
5 lic. Segregation of the deficits into a separate subsidy
6 programme might have the additional merit of making
7 clear the cost of continuing passenger train operations
8 in instances where these operations are no longer supported
9 by public patronage and might, thus, assist in accelera-
10 ting a tailoring of service which appears to be inevit-
11 able in the longer run.

12 The burden of maintaining and operating a
13 railroad mileage in excess of that required by the volume
14 of traffic is, no doubt, substantial. While it is
15 possible to adjust rail plant and operating practices
16 to a wide range of densities, it would appear that the
17 traffic density of a considerable portion of the Canadian
18 system falls below the level at which such an adjustment
19 can be accomplished. It is not clear that any short-
20 run solution is feasible. Major lines falling in the
21 category of "national policy lines" have become inte-
22 grated into the systems in such a way as, doubtless,
23 to prohibit their abandonment. Some greater progress
24 may be attainable in branch line abandonment, especially
25 where near duplication of the two major systems exists
26 and highway conditions permit concentration of the
27 traffic into stations on one of the two lines. Where
28 reasonably feasible such abandonment ought certainly to
29 be fostered rather than opposed, since it may lend
30 help in improving the efficiency of the railroad system



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2 and thus in strengthening its overall competitive position
3 while reducing the total burden of transportation cost in
4 the Canadian economy. Where public authority stands in
5 the way of the line abandonment shown to be economically
6 desirable, an argument for subsidy could certainly be made.
7 But the determination of subsidy levels and the adminis-
8 tration of subsidy in such cases presents obvious diffi-
9 culties. A concerted effort to abandon mileage would
10 be far more fruitful for the nation, and to the extent
11 accomplished, at least as helpful to the railways.

12 It would appear to me that the most urgent
13 requirement for attaining a long-run and reasonably per-
14 manent solution of the railroad problem is to effect
15 accelerated changes in the rate structure which will
16 more faithfully reflect the economic advantages of the
17 railroad technology and erect defences against further
18 uneconomic diversion of traffic to other methods of
19 transportation. The principles that ought to be brought
20 to bear in the face of growing intercarrier competition
21 are clear enough in the abstract. But rate making
22 theories are not wisely to be enforced by legislative
23 fiat. The rate making, or pricing, problem is a
24 very practical one embracing wide variation of cir-
25 cumstances and requiring flexibility and speed in admin-
26 istration. It is clear, however, that rates above
27 the costs at which shippers can perform for themselves
28 or competitors can offer an equal or better service
29 will secure no traffic for the railroads. The value
30 of the service by railroad is coming more and more to be



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2 fixed by the cost of performing a substitute service by
3 some other form of transport. Many of the traditional
4 classification principles are deprived of their accus-
5 tomed usefulness in circumstances such as these and this
6 is especially true of such weight as might ordinarily
7 have been given to the value of the commodity in seeking
8 its proper position among the classification ratings.
9 It is equally clear that the continuance of rates above
10 the levels at which competition can prospectively be
11 supplied will invite and encourage such competition to
12 develop and will augment the pressure to devote public
13 funds to the further increase of basic transportation
14 capacity. It is not enough to meet competition after
15 it develops. It is essential to forestall it where
16 the railroad has an advantage and to create a structure
17 of rates which deters rather than invites the spread
18 of competition.

19 Much has been said and written about the
20 making of rail rates upon a cost basis. Wise pricing
21 practices, however, require attention not only to the
22 cost at which a product can be manufactured or sold but
23 to the market conditions which determine the strength
24 and character of demand. Few would, therefore, urge a
25 mechanical adherence to a cost standard in the pricing
26 of the transportation service. Excessive emphasis,
27 perhaps, has been placed upon cost in a good bit of
28 theoretical writing. But this is largely because the
29 traditional value of service concept and the standards
30 used to measure it require revision and because there



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2 has been very sharp resistance to such revision. Value
3 of service, in the revised sense noted above, continues
4 to be a valid principle of rate making. Generally
5 speaking, however, the range of the value of railroad
6 service above the cost of service has narrowed and this
7 process seems to be continuing. Thus cost is not the
8 only test which ought to be applied to a rate, but
9 every rate ought to cover at least the appropriate
10 marginal cost. Above this, in the face of competition
11 and potential competition rates ought to be fixed as
12 near as may be at the level which will maximize con-
13 tribution above the marginal cost level.

14 In the face of present competitive com-
15 plexities it would appear that carriers ought to be
16 allowed great freedom in the making of rates. They
17 appear to enjoy greater latitude in Canada than has
18 been true in the United States. In a basic public
19 service industry, however, the public is entitled to
20 expect certain things:

- 21 (a) That carriers will put in force or continue in
22 force no rates which lie below the appropriate
23 cost. Where traffic can be retained against
24 competition only at below cost levels, such
25 traffic ought to be shed. For it not only
26 burdens other rail traffic, but by encouraging
27 the movement of traffic by a method of transport
28 which is less economical than some other, it
29 burdens the economy as a whole. Many com-
30 modity classes within the United States include



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2 significant volumes of traffic which appear
3 to be moving at below cost levels. In some
4 instances this has resulted from the application
5 of regulation. In other instances it is the
6 result of continuance of precompetitive price
7 practices. In yet others it results from a
8 shift in the cost function, e.g. the increase in
9 terminal costs in relation to line haul, over a
10 period of time which has not been recognized in the
11 rate structure. Railroads will not, except in
12 the short run and for purposes of destroying
13 competition, ordinarily make rates which they
14 believe lie below the cost of service. But
15 rates established close to the level of cost
16 may be allowed, in the absence of continuing
17 review, to fall below a changing cost structure
18 or to fall below the level which changing com-
19 petitive circumstances require. Where the
20 question is to shed existing traffic which is
21 believed to be handled at less than cost, the
22 relevant measure of cost is, of course, the
23 saving in cost which would be realized if the
24 particular traffic ceased to move by rail.

25 (b) That carriers will, in competitive rate making,
26 fix rates not only above the relevant marginal
27 cost but also at that level about cost which
28 will maximize the contribution to burden from
29 the traffic in the light of the competitive
30 circumstances. This would be anticipated of



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2 carriers in their own interest, quite without
3 public intervention. It is noteworthy,
4 however, that carriers in the United States have
5 not yet equipped themselves adequately in market
6 research and in the study of the cost and ser-
7 vice characteristics of competitive transporta-
8 tion, so that it appears they are frequently
9 misled, or that they allow rates to become
10 lower than competition requires by default of
11 continuing re-examination, no regular processes
12 for such re-examination having been established.

13 (c) That carriers will, in every instance where they
14 have a cost advantage over competitors, reflect
15 the advantage in the rates so as to maximize
16 contribution.

17 (d) That carriers will, even where forceful competi-
18 tion does not now exist, examine their rate
19 structure carefully to remove any incentive to
20 the growth of competitive service which is not
21 capable of being made more economical than rail
22 service.

23 (e) That a test of the maximum reasonable level of
24 rates be devised and applied as an alternative
25 to the increasingly unserviceable traditional
26 tests, which while expedient at an earlier time,
27 now fail to comport with the economic test
28 upon which the justification for discrimination
29 is based.

30 It would appear that Canadian railroads still



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2 have open to them opportunities to preserve their
3 position which have passed away in the United States.
4 It is far more practical to adjust a rate structure
5 which will reflect the railroads' economic advantages
6 and resist the growth of competitive transportation in
7 traffic for which such an advantage exists in advance
8 of the development of such competition than it is to
9 force back overextended competitive forms into their
10 proper economic spheres. United States railroads are
11 beginning to approach a broad revision of their rate
12 forms much too late. Happily it is my impression
13 that both of the major Canadian roads have a more lively
14 awareness of the problem than the majority of the
15 United States roads.

16 The necessity to carry substantial excess
17 mileage with resulting low average freight traffic
18 density while awaiting economic growth to catch up
19 and absorb that capacity may yet constitute a handi-
20 cap of significant proportions. It should result in
21 the short-run marginal cost associated with increased
22 traffic being farther below average total cost than is
23 generally believed to be true in the United States.
24 This may afford greater latitude in meeting competition
25 under the principles set forth above. Yet it may pre-
26 vent, when reasonable treatment is accorded to non-
27 competitive traffic, an entirely adequate total earning
28 power to keep the system reasonably abreast of techno-
29 logical development. If so, attention might be paid
30 to the logic of further subsidy on account of mileage



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2 deemed to have been built ahead of traffic for reasons
3 of national policy. In the long-run, with rapid
4 economic growth and an absence of unforeseen develop-
5 ments in other forms of transport, the strong basic
6 economic advantages of the railroads should assert
7 themselves.
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APPENDIX A

INTERCITY TON MILES IN THE UNITED STATES
BY TYPE OF TRANSPORTATION

	<u>Rail*</u>	<u>Inland Water- ways</u>	<u>Coastwise & Inter- coastal (billions)</u>	<u>Motor Truck</u>	<u>Pipe Line</u>	<u>Total</u>	<u>Rail as % of Total</u>
1926	490.8	93.0	158.0	5.0	19.0	765.8	64.1
1930	423.2	78.0	160.0	12.0	33.0	706.2	59.9
1936	375.3	86.0	192.0	28.0	40.2	721.5	52.0
1940	411.8	118.1	243.4	62.0	59.3	894.6	46.0
1945	736.2	142.7	117.2	66.6	126.5	1,189.2	61.9
1946	642.7	124.0	229.7	81.7	95.1	1,173.2	54.7
1947	706.7	146.7	206.7	101.7	105.2	1,267.0	55.8
1948	688.7	161.8	210.5	115.5	119.6	1,296.1	53.1
1949	567.3	139.4	214.3	124.9	114.9	1,160.8	48.9
1950	628.5	163.3	233.0	170.2	129.2	1,324.2	47.5
1951	686.4	182.2	251.1	182.5	152.1	1,454.3	47.2
1952	651.4	168.4	248.1	184.1	157.5	1,409.5	46.2
1953	641.8	202.4	264.4	217.2	169.9	1,495.7	42.9
1954	577.5	173.7	270.2	214.6	179.2	1,415.2	40.8
1955	654.8	216.5	278.7	226.2	203.2	1,575.7	41.5
1956	670.2	220.0	274.4	253.8	230.0	1,649.0	40.6
1957	649.4	231.8	268.4	244.0**	222.7	1,617.2	40.0
1958	579.3	189.0	266.6	247.0**	211.3	1,493.2	38.9

* Rail figures include mail and express, as well as estimated non-revenue ton miles.

** Revised basis of estimate precludes exact comparison with prior years.

Williams, dir 16986
(Frawley)

U.S. Eastern District
Box Car Costs with
38 per cent Empty
Return, 10-ton Load
January 1, 1950
(Cents per 100 pounds)

Docket 28300 Class Rates
Excluding Ex Parte
175 and Subsequent
Increases
(Cents per 100 pounds)

<u>Length of Haul</u>	<u>Out of Pocket</u>	<u>Fully Distributed</u>	<u>Class 100</u>	<u>Class 50</u>	<u>Class 30</u>
10	19.2	21.3	64	32	19
50	23.0	25.7	91	46	27
100	27.3	30.8	114	57	34
150	31.6	35.9	133	67	40
200	35.9	40.9	149	75	45
300	44.5	51.1	179	90	54
400	53.1	61.2	206	103	62
500	61.7	71.4	231	116	64
1,000	104.7	122.2	345	173	104

APPENDIX C

TONS ORIGINATED, UNITED STATES RAILWAYS
SELECTED COMMODITIES IN
MANUFACTURES AND MISCELLANEOUS CATEGORY
(MILLIONS)

	<u>1947</u>	<u>1956</u>	<u>1958</u>
Fuel oil,petroleumresidual oils,N.O.S.	16.5	10.4	8.5
Lubricating oil and greases	5.6	3.6	2.9
Refined petroleum products, N.O.S.	7.8	9.8	9.2
Tanning materials, NOS	0.33	0.11	0.08
Paint, paint materials, etc.	1.5	0.97	0.79
Drugs,medicines and toiler preparations	0.37	0.19	0.17
Copper, brass and braonze N.O.S.	1.75	1.27	0.82
Iron and steel nails and wire	3.55	2.36	1.52
Agricultural implements and parts	1.42	0.77	0.75
Machinery and parts	5.24	4.24	3.14
Automobiles, passenger	2.08	1.06	0.68
Automobiles, freight	0.62	0.24	0.15
Vehicles, motor, N.O.S.	0.85	0.74	0.58
Autos and autotrucks, K.D.	0.62	0.32	0.19
Electrical equipment and parts	1.66	1.43	1.00
Hardware, N.O.S.	0.20	0.08	0.05
Glass	1.09	0.93	0.48
Glassware	0.46	0.39	0.33
Refrigerators, freezers and parts	1.01	0.93	0.74
Stoves, ranges and parts	0.70	0.38	0.27

Williams, dir
(Frawley)

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APPENDIX C

Appendix C
Concluded

	<u>1947</u>	<u>1956</u>	<u>1958</u>
Tools and parts, N.O.S.	0.11	0.04	0.03
Boots, shoes and Findings	0.17	0.11	0.07
Alcoholic liquors	1.06	0.66	0.56
Malt liquors	4.85	3.21	3.03
Candy and confectionery	0.53	0.40	0.35
Containers, fireboard, K.D.	2.33	1.65	1.33
Manufactures and miscellaneous N.O.S.	<u>7.30</u>	<u>8.06</u>	<u>7.60</u>
Total, listed commodities	69.69	54.34	45.31



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2 Q. Dr. Williams, I want to ask your view
3 with regard to a matter. I show you a document -- just
4 the cover of it -- and it is Statement No. 559 of the
5 Interstate Commerce Commission. It is called Rail
6 Carload Cost Scales by Territories for the Year 1958.

7 Then, I show you another document called
8 Distribution of the Rail Revenue Contribution by Com-
9 modity Groups; this one happens to be 1956; it is
10 numbered as Statement No. 6-58, and it is dated
11 Washington, November 1958, and I would like to ask your
12 opinion as to the usefulness of the preparation of those
13 statements in Canada and your views with respect to the
14 advisability of whether you feel this Commission should
15 make any recommendation with regard to the introduction
16 of that kind of cost information.

17 THE CHAIRMAN: Are you filing copies?

18 MR. FRAWLEY: Oh, no; I have an idea that
19 perhaps a copy has been filed. They are the well known
20 burden study in one instance, of the Interstate Com-
21 merce Commission, and in the other instance the Cost
22 Scales Statement.

23 MR. MAURO: We questioned Dr. Edwards about
24 that previously.

25 MR. SINCLAIR: Before the witness answers, Mr.
26 Chairman and members of the Commission, this was an
27 issue that was raised by my friend many, many months ago
28 in the proceedings. It was fully considered by the
29 Commission and the Commission ruled, and in my respect-
30 ful submission, the question put by my friend to Dr.



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2 Williams is highly improper in light of the ruling of
3 the Commission, and while Dr. Williams may have all kinds
4 of opinions on that issue, the Commission has stated by
5 its rulings that they are not interested in them, and
6 they are irrelevant, and for that reason I would ask
7 the question be struck out.

8 MR. MAURO: Mr. Chairman, the reason they are
9 brought into this context is that the Commission ruled
10 they would not order a burden study at this time. The
11 Province of Manitoba, as you will recall, in their
12 submission through the Premier at Winnipeg recommended
13 that a burden study be ordered -- something similar to
14 a burden study be ordered. The matter was introduced
15 through Dr. Edwards, and this is a joint submission of
16 both Manitoba and Alberta, and we felt here was an expert
17 in the field, not on whether this Commission should have
18 a burden study done now; that matter is closed.

19 MR. FRAWLEY: May I just add to that, Mr.
20 Chairman, that I am amazed Mr. Sinclair should say this
21 Commission has ruled that the issue is closed. What
22 is the issue I am raising, and what is the issue my friend
23 is talking about? He is saying he resisted the
24 attempt made by us last February for the Commission then
25 and there to order the railways to provide a burden study
26 or to provide basic data upon which we, ourselves, could
27 make a burden study.

28 THE CHAIRMAN: What you are asking is if it
29 would be a good thing.

30 MR. FRAWLEY: I will go even further, Mr.



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2 Chairman: I am asking the opinion of the witness, who
3 I think is well qualified to express an opinion, with
4 respect to whether this sort of thing should be introduced
5 as a routine matter and made available to the Board of
6 Transport Commissioners and their economic and account-
7 ing section. That has not been closed, I hope, at all.

8 THE CHAIRMAN: You are not opening up again
9 the request to us?

10 MR. FRAWLEY: Not at all.

11 MR. SINCLAIR: With respect, Mr. Chairman,
12 I was listening to my friend rather closely, and if I
13 am wrong the reporter can look up the question asked of
14 the witness, but he used the word "worthwhile" --
15 "in your opinion, are such things worthwhile?" I
16 object to that.

17 MR. FRAWLEY: Are you objecting to my use of
18 the word "worthwhile"?

19 MR. SINCLAIR: My friend, in asking the wit-
20 ness, while he may be knowledgeable about the situation
21 as to how these are maintained in the United States, has
22 introduced in no way any qualification as to his know-
23 ledge of costing and the conditions in Canada that would
24 enable him to answer that question as it applies to the
25 two major railways in Canada and the situation prevailing
26 here. On that basis I also object to it.

27 MR. MAURO: That would be a matter of credi-
28 bility.

29 MR. SINCLAIR: It is qualification. It is
30 not credibility.



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2 MR. MAURO: It certainly is. This commission
3 can receive the evidence and treat it as it sees fit.

4 MR. FRAWLEY: His qualifications are there and
5 I am quite content with them, and I would certainly humbly
6 submit the witness is quite well qualified to talk about
7 burden studies and the cost scale studies of the Inter-
8 state Commerce Commission. My friend now shifts from
9 his first position.

10 MR. SINCLAIR: I have two grounds.

11 MR. FRAWLEY: Well, we are not asking that the
12 Commission order a burden study to be developed in our
13 proceedings now. That has gone. We regretted very
14 much the ruling of the Commission; it affected the course
15 of our participation.

16 MR. SINCLAIR: But you are abiding by that
17 ruling?

18 MR. FRAWLEY: The ruling is that this Com-
19 mission would not order the railways to provide the
20 data at that time. That is finished; that issue is
21 dead and concluded. I am now talking about a recom-
22 mendation of this Commission which we are going to ask,
23 that that kind of information become routine in Canada
24 as it is in the United States. As to that, the
25 Commission is eminently qualified to express an opinion.

26 COMMISSIONER MANN: Dr. Williams, your general
27 answer to such a question, if it were given, would
28 follow, would it, along the lines of what you state
29 under Cost Finding in Federal Transportation Policy
30 at pages 9 and 19?



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2 THE WITNESS: Very much so, I suspect, since
3 we had quite an examination of this problem made at the
4 time of that study.

5 THE CHAIRMAN: I don't think you can inter-
6 rupt the answer there, Mr. Sinclair.

7 MR. SINCLAIR: I just want to note that my
8 position is that Dr. Williams has not attempted, or
9 my friend has not attempted to qualify him as a cost
10 analyst expert or as a rate expert or that he has know-
11 ledge of the situation as it pertains in Canada. On
12 that basis my objection rests.

13 MR. FRAWLEY: Well, I am not going to argue
14 his qualifications.

15 THE CHAIRMAN: Answer the question.

16 THE WITNESS: Well, it is a question which
17 probably calls for a rather complicated answer. I think
18 it will be obvious to the Commission that any recommen-
19 dations that ran in the direction suggested, that the
20 cost of the service has become, and must by the nature
21 of economic circumstances become, a more important test
22 of successful rate making in the present competitive
23 era, and will certainly suggest that some kind of cost
24 finding procedures become essential. They are, in the
25 first instance, essential to the carriers themselves,
26 and this is a thing which our own railroads were quite
27 reluctant to recognize because the rail cost finding
28 problem is certainly one of the most difficult cost
29 finding problems that can be presented in the whole field
30 of economics. Moreover, it was not a thing traditionally



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2 necessary nor a thing the carriers were naturally
3 prepared to come forward with. But certainly it is
4 becoming recognized by our railroads and increasingly, I
5 think, by shippers who are called upon to negotiate
6 rates with carriers, as well as to contest rates in
7 regulatory proceedings, that cost tests have become
8 increasingly important. They have certainly with us
9 become especially important in the matter of trying to
10 determine in the regulatory process how low a carrier
11 of any kind -- not just railways but other forms who
12 may be in competition with one another -- ought to be
13 permitted as a matter of public policy to go in making
14 rates. When you come down to it, the question that
15 the regulators ask increasingly, especially since the
16 amendment of 1958, is the question that railroads
17 certainly ought to be and presumably are asking of
18 themselves, and that is the question whether the rate
19 reduction proposed will be beneficial to the net income
20 of the carrier. That involves not only, obviously, a
21 determination of what the cost of the service will be,
22 but also an estimation of what the volume of the traffic
23 will be, because unfortunately the behaviour of cost is
24 related to the matter of volume. We have, as you all
25 know, and as this document which Mr. Frawley has put
26 before me indicates, for a number of years had published
27 by the Interstate Commerce Commission a publication
28 called Rail Carload Cost Scales by Territories. This
29 document has become increasingly to be used in the United
30 States. I am not able to speak of that entirely in



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Williams, dir
(Frawley)

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2 a favourable sense, however. We notice, for example,
3 in the report to which Mr. Commissioner Mann has referred
4 that cost finding procedures in respect of all forms of
5 transportation in the United States are certainly not
6 as well advanced as would be desirable.



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2 We have heard the results of the application
3 of a form which essentially was developed by the
4 Interstate Commerce Commission in the class rate 39
5 proceedings Docket 28300 and 28310. Their problem at
6 that time was a problem very similar to the one you had
7 in the Equalization case. That is a problem of alleged
8 territorial discrimination in rates, a matter that was
9 really, in controversy, whether it was notably more
10 expensive to transport freight by rail to Southern
11 territory than in the Western territory than in
12 official territory. For that kind of a purpose
13 territorial approaches were reasonable, appropriate and,
14 in the end, the cost finding study -- the first of the
15 sort done on that comprehensive basis by the Interstate
16 Commerce Commission -- suggested that the differences,
17 although there were some, in the average levels in the
18 several territories were not significant enough to
19 justify differences in the scales of class rates that
20 ought to be prescribed.

21 Now, these data, the formula itself, has been
22 carried forward. These data are annually put out by the
23 Commission. And, in default of anything else generally
24 available and reasonably recognized officially so that
25 it does not have to be defended everytime it is put in
26 the record in a proceeding, we have come to use it for
27 a great many purposes that get awfully far from the
28 intended purpose. We are inclined to use it for a great
29 variety of rate cases for which there is involved
30 perhaps a rate on a single commodity between a few areas



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2 in Canada with which average territorial costs do not
3 prove very helpful. If they shed any light, it is
4 probably accidentally rather than otherwise.

5 There are, of course, methods by which these costs
6 can be adjusted in some degree. The Commission itself
7 provides a suggestion as to a number of adjustments
8 that can be made in the covering material which goes
9 along with the carload cost scales. Some of the major
10 causes for differences in the costs of particular hauls
11 -- what you might call departures from the average of
12 territorial experience -- can be allowed for roughly and,
13 of course, the formula can be employed for special cost
14 studies reflecting the costs on a particular railroad or
15 group of railroads and adjusted to reflect not average but
16 actual costs in particular terminal situations and the
17 like. It certainly cannot be described as, at this stage
18 in the game, in any sense a perfect tool. As a matter
19 of fact, I am a little disturbed by the extent to which
20 we have come to accept it and use it without a
21 recognition of the qualifications that were put around
22 it by the Commission's own cost section itself in
23 explaining what had here been done, and what these
24 results were.

25 Nevertheless, if one uses it with a proper
26 recognition of its limitations, then it can become a
27 useful instrument; and we are in the unhappy situation
28 of not having any other. I have been of the opinion,
29 and we recommended in the Department of Commerce study,
30 that a great deal more work ought to be done on this



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2 in view of the fact that our rail carriers are
3 increasinly recognizing -- and some of our motor
4 carriers likewise -- the fact that they must have, if
5 they are to do a rate-making job intelligently, better
6 cost information than they now have. Quite a little work
7 is going forward in some of our carriers in that
8 direction to improve what we now have before us.

9 In the meanwhile, this set of carload cost
10 scales certainly has usefulness, if it is properly
11 interpreted and properly applied. My concern about it
12 is more often that it will not be properly interpreted
13 or properly applied. It has gotten to the point,
14 however, where it is used as the basis for screening
15 proposed reduced rates in the Commission's Suspension
16 Board. It is used as a way of separating, you might
17 say, the sheep from the goats as to whether there is
18 a rate that is apparently a satisfactorily compensatory
19 rate or a rate as to which there might be some question
20 as to its compensatory character.

21 It is an important test in determining
22 whether the rates ought to be suspended or they ought
23 not to be suspended. It is a thing that has caused a
24 good deal of grief to carriers' competition with the
25 railroads, and has been complained about considerably.

26 I would say, though, that the out of pocket
27 cost formula that is used by the Commission is
28 conservative enough so that unless you have quite
29 exceptional cases present it can provide such a rough
30 test ... certainly not a conclusive test in the case of



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2 a close kind of an issue that involves important
3 competitive interests.

4 It does, of course, enable a good bit of
5 broad study to be made. This kind of thing is
6 translated into the second document which deals with
7 the question of the distribution of rail revenue
8 direction. The one depends on the other. The cost
9 finding procedures are necessary to produce the cost
10 element which enables the burden distribution to be
11 shown.

12 Now, this enables us to see in a rough way,
13 and subject to the conditions that have to attach to
14 the cost studies themselves, what the apparent position
15 of various commodity groups is. It serves, certainly,
16 as a kind of a screening devise. It is not, at its
17 present state, I think, sufficiently acute as an
18 analytical tool to enable us to deal with close cases
19 without going further, but I think it has been in our
20 case in the regulatory side and to shippers and
21 carriers alike a very useful approach as a rough
22 approximation, and it cannot purport to do much more
23 than that, unless you supplement it with some
24 additional studies and you supplement it with some
25 adjustments from the scale costs as shown in this
26 publication.

27 We would be hard put to go forward in
28 applying the principles that we are now trying to
29 apply largely on the railroads own initiative, however,
30 if we did not have some basis for considering in



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2 regulatory procedures the level of railway costs and
3 things -- some basis for using them in the suspension
4 process -- as a rather automatic matter.

5 My hope is that we will not misuse them and we
6 will develop more perfect instruments because the present
7 problem, after all, is not a problem of pricing average
8 traffic; it is a problem of pricing how traffic movements
9 in which one certainly will expect that in a great many
10 cases the cost of movement will depart, and perhaps
11 depart significantly, from what are shown as average
12 territorial costs.

13 That is certainly a long answer, and I do not
14 know for certain whether it was responsive to the
15 question.

16 THE CHAIRMAN: In short, what you say is it
17 represents a test and not the test?

18 THE WITNESS: It does represent a test.

19 THE CHAIRMAN: But not the test?

20 THE WITNESS: It is sort of the first test
21 that necessitates more when you get into close
22 situations.

23 THE CHAIRMAN: But not the final test?

24 THE WITNESS: Not unless the case is one that
25 is pretty obvious and clear-cut.

26 THE CHAIRMAN: Are you finished, Mr. Frawley?

27 MR. FRAWLEY: Yes, Mr. Chairman.

28 THE CHAIRMAN: We will start at 2 o'clock
29 with Mr. Cumming.

30 -- We will adjourn now until 2 o'clock. --



-- On resuming at 2 p.m.

THE CHAIRMAN: Order, please. Mr. Cumming?

CROSS-EXAMINATION BY MR. CUMMING:

Q. Dr. Williams, on page 7 of your submission, dealing with this general question of discriminatory pricing, you point out that, and you use the term "commercial and market competition" were allowed in large measure to determine rate relationships.

When you refer to market competition, are you referring there in the United States to off-shore market competition, or is this an internal situation?

A. No, this is in large part, that is, at least an internal situation. There are undoubtedly examples of an external situation, one of which, or one that involves a combination would be such a thing as our sugar rate structure, in as much as sugar is both an item of domestic production and an item of import in which we have what amounts to a nation-wide rate structure, and we would describe that as a structure determined largely by market competitive forces, but it embraces both external and internal competitive forces. The term would be applicable to both kinds of situations, but most commonly the market competition that we have been concerned with in rate structure has been competition of alternative domestic sources of supply in particular markets.

Q. What I was thinking of in this connection



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2 is this, Dr. Williams: with a system of regional
3 railways in the United States as compared to our national
4 or two national systems, is some of what is apparently
5 market competition really a form of carrier competition?

6 A. Indirectly that is true. I usually discuss
7 market competition in the classroom in order to try to
8 make it clear how it works by pointing out the fact that
9 it gets translated into a rate structure largely because
10 the efforts of various producing centers or regions to
11 reach a common market involves different carriers in a
12 competitive relationship.

13 If we have, for instance, in a coal rate
14 structure, which is perhaps a good example of an
15 adjustment to market competitive forces, a situation
16 where coal mines are ordinarily located on a single
17 railroad -- that is, an individual mine seldom has
18 service by more than one railroad -- we may find that one
19 mining field with a number of mines is dependent on one
20 railroad, while another which is competitive in the same
21 general market is served by a different railroad.

22 Market competition, therefore, translates
23 itself into carrier competition, but not the competition
24 of parallel routes. But it is because the railroads
25 themselves are competitive, even though they are serving
26 different sources of the traffic, that this thing gets
27 reflected into an adjustment of the rate structure.

28 Q. What kind of competition would exist in
29 this sort of situation, Dr. Williams, say, citrus fruit
30 moving from California and Florida, which I assume move



over different railway systems, into the New York market

--

A. It does.

Q. -- Is that carrier competition?

A. We would describe that as market competition. In point of fact, what you have really is the competition between Florida carriers, which obviously are interested in promoting the Florida crop, and the transcontinental rates, which are interested in promoting the movements of California crop and of the Texas crop. But we would use the term "market competition" to describe that. In order to make it understandable, or make understandable why it affects the rate structure, you have to go on, however, to discuss the resulting competition of railroads to develop and generate in their own territories as much a share of traffic going into the market as possible.

Q. I am sorry, I did not mean to interrupt.
Are you through?

A. Yes.

Q. The railways -- we have heard here so many times that it is not the function of the rate structure to offset the geographical advantages or disadvantages, certainly, in the Canadian context, and I am just wondering if you would comment on that in connection with the role which market competition can or should play in the making of rates? That is, internal?

A. Well, I think at least formally and in principle we take exactly the same attitude under our law.



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2 We generally take the position that it is no part of the
3 regulatory function to adjust rates with a light to
4 geographical differences or circumstances or the
5 differences in economic circumstances, other than what
6 might be called the transportation condition.

7 Nevertheless, as a practical matter, in our own
8 railroad situation it becomes necessary if competition
9 among railroads is to be reasonably stable that where
10 there are strong market competitive factors there be some
11 manner of a compromise of those marketing conditions.

12 And we have time and again recognized the propriety
13 of that being done. The Interstate Commerce Commission
14 is, of course, on record on numerous occasions in saying
15 that the regulation of transportation rates has nothing
16 to do with the neutralization or offsetting of economic
17 advantages or disadvantages, and yet, interestingly
18 enough, there are a number of cases in which it is hard
19 to read anything else either into the decisions or the
20 language used in that the Commission accepted and indeed
21 confirmed carrier decisions that run directly in that
22 effect.

23 So, I would say we have a principle which is
24 quite the same as yours, yet perhaps we honour it in the
25 breach almost as frequently as we honour it by observation.

26 Q. Do you think those breaches are supportable?
27 Are they sound? Should we have them in Canada?

28 A. Well, that is a difficult question. An
29 economist rather takes a dislike to them on the grounds
30 that when you ignore in any measurable degree the relative



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2 costs of service -- for example, in putting products out
3 of two producing areas into a common market, by that very
4 process you are tending to stimulate a degree of
5 production in a location that is a less economical
6 location, all things, including transportation costs,
7 considered, than the other.

8 On the other hand, our regulatory process had
9 to go to work on a situation already existing in which
10 these kinds of things had been done for long years. A
11 great deal of the commerce of the country had come to be
12 associated with adjustments of that kind. And, moreover,
13 the process of adjusting to changes in economic
14 circumstances in one section, as compared with another,
15 is likely to be a rather painful one. So that it has
16 seemed to us expedient and, on the whole, wise to make
17 a number of concessions with principle that would cushion
18 some of the shock of adjustment on the one hand and,
19 secondly, of course, we in the United States, at any rate,
20 place a great deal of store on having competitive sources
21 of production. We have collectively through the carriers
22 and the rate making procedures which we have and
23 a regulatory authority over the years come to the
24 conclusion, although we may not have stated it quite this
25 way, that it is better for us to accept a certain amount
26 of what the economists would define as inefficiency in
27 the economic system in order that we might have a greater
28 degree of competitive distribution, market competition,
29 and the like. We accept the benefit in which we have a
30 good deal of confidence, which is not capable of being



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2 quantified or measured as being superior to a strictly
3 economic basis of rates.

4 Now, that system, of course, again like some of
5 the early part of this discussion, is a workable enough
6 situation when the transportation was entirely performed
7 by commercial for-hire transportation agencies. It has
8 become difficult to maintain relationships of that kind
9 as sharply as private transportation comes into the
10 picture, because the shipper who can move his own
11 transport will be governed by the cost of that
12 transportation. It may well be that if we have affected
13 some kind of adjustment that departs from cost, we will
14 discover it either has to be broken down on the side of
15 commercial transportation or a significant part of the
16 traffic will go to private carriers and the equalization
17 that was sought, or the equal opportunity in the market
18 will, in any event, disappear.

19 Q. Well now, the factors of market
20 competition, I take it from what you say, will justify
21 the reduction of rates even in the complete absence of
22 any element of carrier competition?

23 A. In the absence of any direct carrier
24 competition, yes, and by direct carrier competition we
25 mean point to point competition. That is to say, if you
26 have both of your railroads serving between Winnipeg and
27 Calgary -- let us say all traffic between Winnipeg and
28 Calgary -- that we would call direct competition between
29 two railroads.

30 If we are dealing with different points, however,



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2 marketing commonly in Winnipeg and located one on one
3 of the railroads and the other on the other, that is
4 what we would refer to as market competition; noticing,
5 however, that the market competition has in fact brought
6 the carriers into competition, even though indirectly.

7 Q. You are familiar, I take it, Dr. Williams,
8 with what are known as transcontinental rates?

9 A. Yes.

10 Q. And they are established, as I understand
11 it, in order in part at least to meet off-shore
12 competition at the coastal points. For instance, a
13 transcontinental rate might be put in between Toronto
14 and Vancouver to meet off-shore competition at that
15 point?

16 A. Yes, yes.

17 Q. And that rate may under those circumstances
18 be lower because of that competition than a rate from an
19 intermediate point closer to Vancouver than the
20 competitive rate so established?

21 A. Yes, quite so.

22 Q. And we have heard that that is the case
23 from many sources. Do you think under those circumstances
24 that the element of market competition, assuming that
25 there is a shipper of the same commodity at an
26 intermediate point, should drive down that rate to the
27 coast?

28 A. Well, this is a question that is not easy
29 to answer in the abstract. If one has a condition in
30 which imported commodities can be laid down on the



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2 British Columbia coast on a basis that would not permit
3 Canadian sources of production to meet that competition
4 except with reduced rates, than it appears to me that
5 so long as the rates that are used for that purpose are
6 in the first place compensatory rates, in the sense that
7 they return more than the added cost of handling that
8 traffic, whatever it may be; and, secondly, are as high
9 as is possible in the light of the import competition
10 to sustain a Canadian participation in the market, then
11 no one could properly take objection to those rates,
12 nor would it follow that because the rates had been
13 reduced in that competitive circumstance rates elsewhere
14 would require to be reduced.

15 This is one variety of a meeting of
16 competition where there are external factors beyond the
17 control of the railway companies, and the best they can
18 do for their net revenue position and, therefore, for
19 the overall position of railroad transportation, is to
20 meet that competition, if they can do so at a
21 compensatory rate.

22 Q. And I suppose the propriety of it would
23 be measured by the extent to which the railway could
24 maximize its net revenue position? Would that be your
25 opinion?

26 A. Yes, I would think so.

27 Q. Could this question of market competition
28 go to the extent of justifying, in your view, different
29 rates given to different shippers whose own internal
30 operating or production costs may vary in order to



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2 enable, say, a high cost producer and shipper to meet
3 competition at a common market?

4 A. Well, I think that it makes bad economics
5 to do that. On the other hand, we have any number of
6 examples of that sort of thing within the United States.

7 We have, of course, a rather sharp prohibition
8 of personal discrimination in the Interstate Commerce
9 Act. This does not, however, prevent us from doing
10 something of the sort you suggest, where we are dealing
11 with shippers located at different points and not
12 shipping under precisely similar circumstances. We
13 would then have a situation which would not be responsible
14 to section 2 of Part 1 of the Interstate Commerce
15 Commission and would not come under the prohibition of
16 personal discrimination, per se. And, certainly, we have
17 in a number of rate structures done that sort of thing,
18 more commonly in the case of producing areas that
19 generally encountered higher production costs than other
20 areas, rather than individual producers.

21 But I would think the principle is extendable
22 to the case of individual producers. As I say, it makes
23 bad economics. About the only justification you can
24 offer from the economic point of view, perhaps, is to
25 admit that where situations of this kind exist you
26 cannot, without considerable pain, dispense with
27 inefficient procedures immediately right off the bat,
28 and that an adjustment period makes some sense in so
29 far as the freight rates may in the past have
30 encouraged the continuance of such relative inefficient



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production, it might be well to mitigate the shift.

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2 On the whole I think it is rather poor policy for
3 railroad rate structure consciously to encourage
4 inefficient production.

5 Q. Further down on this page, Dr. Williams,
6 you refer to:

7 "Thus, mileage scales have often been uniformly
8 applied over large areas, equally to light
9 traffic branch lines where good loading of the
10 plant cannot be secured so that average unit
11 costs must remain high..."

12 Would there be any justification in your view
13 for differential charging of traffic which moves on the
14 main line as against that which is moving on low
15 density lines where unit costs may be said to be higher.

16 A. Oh, there is an excellent justification
17 from the point of view of the economist because if you
18 were to make that kind of adjustment you would tend to
19 direct producing activity into main line locations, you
20 would tend to increase the volume of the business over
21 main lines and reduce production. Of course you would
22 get a better reduction in cost towards an overall
23 efficiency. The case, however, becomes a troublesome one
24 from the point of view of public policy when instead of
25 starting out fresh with a clean sheet you are starting
26 with a situation where such scales have been in existence
27 for a long period of time and it has been recognized that
28 rates on branch lines are apt to be the same as a main
29 line. Here you have a situation where economic injustice
30 has been committed on branch line points. It has been



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2 done so in reliance on the proposition that that kind
3 of efficiency of rate making will continue. Investments
4 have been made and clearly it is not the kind of thing
5 that one would want as a matter of public policy to
6 disturb quickly or overnight or without some kind of
7 a period of transition. This is a sort of thing, however,
8 which it would seem to me as an economist we ought to
9 begin to move a little bit towards in transportation
10 rate making. That is to say, we ought to commence to
11 make some differentials, perhaps not in the full scale
12 knowledge of cost showing of the United States.

13 Q. Do you see in the long run a practical rate
14 structure which would reflect those different costs as
15 between high density main line and low density branch
16 lines.

17 A. I do not think there is anything impractical
18 about it as far as determining what reasonable level of
19 rates ought to be. The problem to me is most largely a
20 problem of how fast it may be reasonably acceptable to
21 move in that direction. We are in a position, of course,
22 and it is a rather odd position that because of the fact
23 that we necessarily average, under these circumstances,
24 branch and main line traffic, we make the railroad
25 method of transportation appear weak precisely in
26 markets where it is likely to encounter this most
27 strange competition as between major points where trucks
28 have good highway access and you will have a balanced
29 traffic and you have a highly rated traffic. This is a
30 system which seems to me cannot indefinitely survive



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2 as long as we have these competitive opportunities
3 external to the railway systems.

4 Q. Turning over, if I may, to page 10 under
5 the heading of "Development of Competition" you point out:

6 "In both the United States and Canada water
7 competition via the Great Lakes and connecting
8 channels were undoubtedly the most important
9 exception, but so far as it was in fact
10 competitive with railroads this transportation
11 was capable of being brought under some degree
12 of control and its packaged freight rates
13 differentially related to the rail rates."

14 Did you intend to omit the competitive impact
15 of the effect of the Panama Canal from this list of water
16 competition?

17 A. Well, of course, the Panama Canal was opened
18 at a time during the first war and closed briefly and
19 reopened so its effect did not come to be felt until the
20 early 1920's. I think of that as a period when other
21 competition began to show signs being significant. W
22 developed in the United States out first, inter-city
23 trucking during the first world war which was on a very
24 small primitive scale but it occurred in a period during
25 the 1920's. Our first transportation by air was accomplished
26 in 1918 and it began to develop in the 1920's. It was
27 also in the 1920's that we, for the first time, really
28 adopted a comprehensive policy for the improvement of
29 our inland waterways. I would include the Panama Canal
30 as part of this great general development to competitive



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2 forms in the decade of the 1920's. I think it was one
3 of the earliest of these.

4 Q. Going on with the sequence of competition
5 which you speak of on page 12, you pointed there has been
6 development of these at least several other
7 transportation agencies including, and you say in the
8 United States, certain inland waterway competition. I
9 wonder if you would be good enough to give the
10 Commission the benefit of your views as to the impact
11 of the St. Lawrence Seaway on the transportation picture
12 and particularly the railway transportation picture.

13 A. Well, I think it is rather early to say
14 very much with assurance. The seaway up to the present
15 has demonstrated the kind of thing that was expected by
16 industry. It has been categorized most largely for the
17 movement of bulk commodities. There has been a change
18 of movement of grain, it has been possible for Upper lake
19 vessels to go to Montreal; it has become possible to move
20 on advantageous terms Quebec and Labrador iron ore into
21 the Great Lakes region. If one looks at the statistics
22 of traffic up the St. Lawrence Seaway this year as
23 compared with the first year of its operation one thing
24 that seems to stand out is that the growth has been in
25 these bulk commodities. Now, some of them, of course,
26 are competitive with railway movements; iron ore for
27 instance can move into the United States to steel centers
28 for certain of them at least either by the Great Lakes
29 and rail or the Atlantic Seaboard and rail from there on.
30 In the latter case there is a considerably longer rail



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2 haul and a higher revenue realized by the railways. Much
3 of that traffic that moves over the seaway so far, however,
4 does not represent competitive diversion from railways.
5 A good deal of interest is centered on the question as to
6 what extent a general cargo would develop via the seaway
7 which would represent that diversion from the Atlantic
8 coast and the Gulf coast ports in the export and import
9 movement which would deprive the railways of a haul from
10 the middle-west for a movement into the Great Lakes
11 because the ranges of haul would very likely be within
12 trucking distance and quite possibly a good part of the
13 traffic would reach the Great Lakes port by truck than by
14 rail. Our experience so far has been with the development
15 of general cargo that the Great Lakes has been rather
16 dissappointing to those who were enthusiastic about its
17 possibilities. This may be a short term picture of the
18 general cargo in the export and import fields who, of
19 course, place considerable store on the quantity of
20 service available measured in the terms of ocean transit
21 time and the frequency of service available in terms of
22 the number of direct services available to various ports
23 in the world. We do not know too much about just how
24 responsive general cargo traffic is to rate differentials
25 and how far it may be responsive to service differentials
26 but up to the present time the service that can be
27 generated within the Great Lakes has been deficient as
28 that compared to within your gulf ports by a wide margin.
29 That is one of those things we commonly encounter in
30 transportation, the type of traffic, the absence of



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2 traffic, difficulty with good service where the traffic
3 cannot be made to move.

4 Q. You get into a chicken and egg situation.

5 A. Yes, this is a case in the Great Lakes
6 general cargo also. There are some things such as the
7 position of the Great Lakes port but I think that is the
8 most important problem.

9 Q. Then, a small point that arises a little
10 further down this page where you say:

11 "... hence it would not be unreasonable to
12 calculate the whole of the intercity truck
13 ton miles (including private and exempt) at
14 4¢ a ton mile."

15 I am intrigued to know why is it, as a
16 whole, lower than the regulated revenues?

17 A. Well, it may be or may not be. That is
18 something on which one is required to speculate but at
19 least a little light can be shed on that. Number one,
20 it is noticeable the things that are contract, our
21 regulated contract truck transportation is generally
22 conducted at somewhat less cost than our regulated
23 common carriage, if you will. This is the result of the
24 fact that contract carriers generally encounter much
25 less expense under the head of sales as well as under
26 the head of rate construction participating in rate
27 making organization and tariff preparation. Partly it
28 is the result of some opportunities on occasion for the
29 contract carrier to tailor his operation to the specific
30 traffic and secure a better load factor. When you go



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2 into private transportation, admittedly we do not know
3 a great deal about it, we have no quantitative information
4 but any of those who have been associated with
5 transportation for any period of time will know of
6 countless examples of private transportation. It is
7 curiously true that in some of our states that the
8 registration fees for so called private vehicles which
9 are handling freight over the highways for commercial
10 companies pay less registration fee for the same type of
11 vehicle than do common carriers. The notion is that the
12 common carrier is using the highway for public purposes
13 and the private vehicle is not, even though the private
14 carrier is the subsidiary of General Foods. This is a
15 rather funny notion. Secondly, the private carrier is
16 almost unregulated completely, it may maintain none of the
17 specified accounts or make any of the specified
18 representation and it adds up to a figure of some
19 importance. What I have done is attribute a requirement
20 under the light of the difference in the probable cost
21 of transportation taking the notion that it would not be
22 proper to attribute to private operations of which are
23 conducted at less charge than the common carriers, the
24 same revenue equivalent. I think one could argue it the
25 other way and use it as the Department of Commerce once
26 did in a report it made some years back. The most
27 significant factor, I am sure, is that the private
28 operator as a general rule is very careful to provide
29 only those services in which he can get an excellent
30 load factor. The private carrier has always had the



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2 common carrier service to rely on for shifts in his
3 volume; he has them to rely on for his small and
4 inconvenient shipments and he uses them as a standby and
5 provides his service to bring his best load where he can
6 get a good load factor and best terms.

7 Q. Common carriers run into the same problems
8 as railways?

9 A. Yes, and you cannot expect to find a load
10 factor on a common carrier as well as you will find on
11 a well conducted private carrier operation. In the case
12 of the private carriers the question is then raised as
13 to whether their accounts are on a comparable basis with
14 those of common carriers. In the Southern territory there are
15 truck mile costs in the order of 35¢; with respect to
16 common carriers they run below 40 to 45 cents and in some
17 cases they are getting as high as 50 cents. It is because
18 of the probable cost of conducting a private, in contrast
19 to a common carrier that I used the figure and that is
20 arbitrary and simply put in as a basis for getting some
21 sort of an order of magnitude.

22 Q. In answer to my friend, Mr. Frawley's
23 request for you to expand on this question of exempt
24 carrier, you outlined these major disadvantages of
25 exemption. I wonder if you would tell us what is the
26 rationale of the justification behind the exemptions that
27 were granted or the inclusion of this particular class of
28 carriage in the exempted category and also, whether in
29 your view, those exemptions should be narrowed.

30 A. Well, to take the matter of the rationale
first, the rationale for the agriculture exemption is not



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2 completely clear. The feeling was that in the handling
3 of agricultural products between the farm and the first
4 point of entry into the stream of market there was
5 present somewhat unusual circumstances which required a
6 high degree of flexibility in the transportation system.
7 We would have to have trucks to follow the crops as they
8 matured across the country and there was a desire to
9 insure that the farmer-owned trucks and the farm
10 co-operative truck was exempt -- it should have been
11 exempted. In any event, in view of the fact the Act
12 was not the Act of private carriage we had a combination
13 of political power on the one hand in the farm groups and
14 on the other hand the feeling that there was real need for
15 a flexible system of collection of crops at the farm
16 which could not be had under a common carrier form of
17 regulation. We got an exemption which I think interested
18 everybody including the members of Congress and the
19 Senators who argued pro and con at the time the Motor
20 Carrier Act of 1935 was under consideration applied and
21 was intended to apply to the movement of farm products
22 from the farm into the first channels of marketing.
23 However, the language that was put in the Act left some
24 great problem of construction. There is some interesting
25 class we could use, possibly green beans. With green
26 beans you put them in boxes and roll them on a truck as
27 they come out of the fields and everyone would admit
28 they are unprocessed. You go to work and bundle them up
29 in rice boxes and put cellophane covering so is this
30 processed or still unprocessed? Suppose you go further



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2 and you go to work and can the beans; is this processed;
3 or not? You get into this kind of question on every
4 commodity that can be moved in the agricultural category.
5 The I.C.C. had to decide whether these commodities fell
6 within the exemption or did not. It took rather a
7 conservative attitude which tried to hold the ratio of
8 these exemptions down. On the other hand, it was found
9 initially and by the decision of the Supreme Court the
10 thing was very carefully excepted to the point where it
11 began to be generally worrisome. We got to the
12 interesting question of an exemption designed to benefit
13 the farmer and now there may be the General Foods Corp.
14 under the buyer's lable with viscerated frozen chicken --

15 Q. That is unprocessed.

16 A. That was the situation. We come right up
17 against the fact that it was entirely possible that it
18 could be construed that all canned goods were being
19 exempt which would have hit at a very heavy load of
20 traffic both for the regulated and railroads and even the
21 intercoastal steamship companies. In the face of that
22 it did go so far, after a great deal of controversy in
23 the Congress, as to make a revision of the law which
24 in effect accepted exemptions which the court had already
25 undertaken to explain as the basis for the continuance of
26 the exception. We also specifically deleted from the
27 exemptions a number of commodities, for instance, coffee
28 was exempted under the bulk exemption. They decided at
29 the time that the liquid and the dry bulk, in the case
30 of water transportation, it was not generally regarded



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2 as true that bulk transportation coast-wise or on the
3 intercoastal waterways or on the Great Lakes of liquid
4 bulk or dry bulk commodities are within the range of
5 this exemption or, as a rule, were truly competitive
6 with any form of transportation. Railroads have never
7 really competed with the movement of bulk on the Great
8 Lakes over the bulk movement of petroleum on the Atlantic
9 Seaboard between the market and the Atlantic. The
10 rationale was that it was not especially competitive with
11 anybody else and the parties concerned, petroleum
12 companies and coal companies did not desire regulation
13 so why should we give it? More recently, however, bulk
14 petroleum has come to the realm of competition with trunk
15 pipelines which is regulated and the regulated carriers
16 by water on the inland rivers and particularly are
17 competitive with the exempt bulk carriers for the same
18 commodities and we have an increasing demand in favour
19 of cutting that exemption. I am not sure whether I
20 answered all aspects of the question.

21 Q. I asked you about the rationale and the
22 second leg of my question was whether or not in your
23 view exemptions of this sort which would seem to have
24 been extended substantially, should be reimposed.

25 A. I am strongly of the opinion that we
26 cannot really run a transportation system that is partly
27 regulated and partly not regulated. My general
28 philosophic disposition is in favour of reducing the
29 scope and impact of the regulation rather than increasing
30 it. If it would seem possible to make progress in that



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2 direction I would not be inclined to advocate extending
3 regulation to presently exempt areas. However, if we
4 should make the decision that we are not going to relax
5 regulation but instead that we are going to enforce our
6 present regulation especially in the motor carrier area
7 where we have a tremendous amounts of unlawful operation,
8 then I would have to say that if this is decided we
9 cannot pursue it satisfactorily unless we get these
10 exemptions off the book.
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2 In that case I would certainly advocate that we cut
3 back on the exemptions.

4 Q. Thank you, Dr. Williams. As you un-
5 doubtedly know, and it appears through the course
6 of the sittings of this Commission, one of the major
7 problems is this question of general percentage increases
8 -- a problem which you have experienced in the United
9 States and which is very much to the fore here. There
10 have been numerous suggestions advanced as to the pos-
11 sible solution to this problem. Some of them are:
12 hold downs, limitations to increases on the basis of
13 a flat cents per mile basis, tapered percentage in-
14 creases, a rate structure more closely approaching a
15 cost of service basis, and some combinations of these.
16 I wonder if we might have the benefit of your views on
17 those proposed solutions?

18 A. Well, on that I don't think there is any
19 ideal formula for accomplishing a general rate level
20 increase. It is a regrettable circumstance that we
21 need them. Generally they come under very heavy
22 pressure of economic circumstance and in a situation
23 where the revenue needs are quite immediate, so that a
24 relatively simple system of increases is a practical
25 necessity. I would hope, if we can get out of the
26 serious inflationary spiral that the better way to get
27 out of it is for a more precise system on a more or
28 less selective basis. I think any form of a rate
29 level increase is not in the long run beneficial to the
30 railroads or to the general economic position because it



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2 is bound to produce distortions and to open a greater
3 range of competitive problems.

4 Q. Over on page 24 you say, "The necessity
5 to improve the railroad position and the growing belief
6 that much traffic has been diverted to more costly forms
7 of transport under traditional rate making policies led
8 to the 1958 revision of the rule of rate making." Would
9 you explain -- and I thought you might have done it in
10 your evidence in chief -- what was done in 1958?

11 A. It was very simple. It was merely to
12 put in the Act words to the effect that the rates that
13 no one form of transportation would be held up for the
14 mere purpose of protecting the traffic of another.
15 This is a thing which neither our commission nor the
16 courts have yet construed as to its final and certain
17 meaning, and it is still in controversy as to what it
18 means. Clearly, it does have to be taken along with
19 other sections of the Act including the declaration of
20 policy. It was a very simple amendment, and that is
21 all there was to it.

22 Q. On the next page you speak of the exper-
23 ience the railways have had, and point out there has not
24 been any noteworthy reduction of rail capacity. What
25 is the reason behind that? Why has not that, in your
26 view, been pressed forward more vigorously?

27 A. In the United States, at any rate, I think
28 part of the cause is that having as many rail companies
29 as we have, and so much in competition, at one point
30 and another across the country, no railroad individually



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2 is at all anxious to eliminate mileage into a point from
3 which it may be able to generate some traffic unless the
4 condition becomes one where the losses are hopelessly
5 burdensome. We have not had arrangements hitherto
6 which enabled very much cooperation along those lines, or
7 any great enthusiasm on the part of the railroads for
8 that kind of approach. We have abandoned substantial
9 mileages of branch lines which had, in effect, lost their
10 traffic and which did not involve a competitive situation
11 very much between railroad companies. There, the
12 railroads have been impeded by the regulatory hurdles
13 they had to get over. There has been a considerable
14 lag because of the necessity to bring proceedings seeking
15 the right to abandon, because of the solicitude of the
16 commission on the whole for public demands, even though
17 sometimes unsubstantial, for continuance of service.

18 THE CHAIRMAN: Local resistance?

19 THE WITNESS: Yes, local resistance, some of
20 which is perfectly understandable because you may get
21 grain merchants or coal merchants who cannot readily
22 turn to something else.

23 THE CHAIRMAN: We have that in Canada too.

24 THE WITNESS: I imagine you would have.

25 MR. CUMMING: Q. Do you think there should be
26 any significant change in the United States in the atti-
27 tude of the Commission on the question of the treatment
28 of abandonment applications?

29 A. I think the Commission has become rather
30 more receptive and probably a little more expeditious



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2 in handling them as well as service abandonment proceed-
3 ings, but I don't suppose we will get any really large
4 issues in that respect unless some of the present moves
5 to consolidate competing railways begin to bear fruit.
6 Until we do that we will not have opened up to us the
7 opportunity for the railroads themselves to take the
8 initiative in abandoning or reducing the status of
9 substantial mileages of lines. I think with us
10 consolidation is a prelude to a significant reduction
11 in line haul capacity. We don't know where we will
12 stand on that because we have not had a really controversial
13 case dealt with by the Interstate Commerce Commission in
14 this postwar series.

15 Q. So far as the Canadian picture is con-
16 cerned, I take it from what you say on page 35 that
17 you feel a concerted effort to abandon mileage would be
18 far more fruitful. What do you suggest, having in mind
19 the experience of opposition to abandonment -- what do
20 you suggest as the proper tests which should be applied,
21 and generally, what do you suggest as to the manner in
22 which they should be handled?

23 A. In the last analysis I suppose there is
24 no way of getting round the fact the abandonment of the
25 line must rest on an exercise of judgment as to whether
26 the interests of the railroads and the public in the
27 better economy of transportation might result from
28 abandonment and the reduction of strains on other busi-
29 nesses outweighs losses that will be sustained by people
30 dependent on the line of railway in question. This, I



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2 think, requires an exercise of judgment. My own feeling
3 about it would be that the thing that is quite commonly
4 ignored in regulatory consideration, at least in the
5 United States, is the overall effect of abandonment of
6 mileage that is now little used on the general trans-
7 portation system -- the efficiency of the transportation
8 system taken as a whole -- that broad public interest,
9 although it should be represented by the Commission,
10 tends to move into the background if it appears at all.
11 One finds a consideration merely of the magnitude of the
12 losses shown by the railroads and the loudness of the
13 people who contend the need for the railroad service.
14 I don't think there is any magic formula for that or
15 anything one could put into legislation which would
16 give us a nice way of deciding it.

17 Q. On page 34 you point out, "Major lines
18 falling in the category of 'national policy lines'
19 have become integrated into the systems in such a way
20 as, doubtless, to prohibit their abandonment." The
21 national policy lines to which you refer there -- what
22 are they?

23 A. I have in mind largely what one of your
24 earlier Royal Commissions called by that name, and bearing
25 in mind the history of the development of your railroads,
26 where it appears that for reasons of national policy
27 substantially more transcontinental lines of railroad
28 were laid down than would certainly have been required
29 on a basis of pure economics. Taking a look at the
30 three lines existing north of the lakes, between the



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2 east and west they carry a substantial volume of traffic,
3 and it does appear there must be ^{important} connected industries on
4 all of them, and although it is very likely on the
5 overall system a better job could be done with fewer
6 lines, it would seem impossible now to effect an adjust-
7 ment. It seems Canadian railroad history suggests it
8 was because of various aspects of national policy,
9 interallied with the position taken by the railroads
10 at that time, a good bit of mileage got constructed
11 that on pure economic grounds would hardly have been put
12 into existence.

13 Q. Dealing with rate matters again for the
14 moment, at page 32, after discussing rate making methods
15 and the situation generally, you say, "It appears that a
16 new test of reasonableness is required. This presents
17 a problem of great difficulty, for although there is an
18 accepted economic standard it is difficult of appli-
19 cation." I wonder if you would elaborate on that --
20 what you mean by the test of reasonableness? What
21 is it, and what are the difficulties in its appli-
22 cation?

23 A. I think Mr. Roberts' testimony will go
24 much further in that respect than what I had proposed
25 to say. Generally, however, from the point of view
26 of the economist, a departure from uniform rates, or
27 equal rates as we might say, is justified under the
28 circumstances that you find in the railroad service,
29 within limits. We permit what might be called an
30 upward discrimination in principle in order to permit



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2 that the railroads develop by encouraging lower grade
3 traffic movements at rates which do not bear a propor-
4 tionate share of their fixed and overhead costs, on the
5 proposition that if we do that we permit an expansion
6 in the total volume, and therefore a reduction in the
7 unit costs and ultimately a reduction in the burden of
8 the high rates. That is, they will also fall below
9 ultimately what an average level of rates would require
10 in order to sustain the railroad system. A test,
11 therefore, of whether rates have got so high as to be
12 unreasonable in the sense that they tax the shippers of
13 the traffic charged such rates above what those same
14 shippers would have to pay if an equal rate policy
15 were used, represents the discrimination that passes
16 beyond the range of the ordinary economic justification
17 for discrimination. I say that the application of a
18 test of that kind is difficult. It is difficult among
19 other things because it necessitates forecasting what the
20 volume of traffic would be at equal rates and, such a
21 forecast having been made, a determination of the level
22 of equal rates that would sustain the rail plant.

23 Q. Again in connection with rate making, on
24 page 37 you say, "In the face of present competitive
25 complexities it would appear that carriers ought to be
26 allowed great freedom in the making of rates." Have
27 you in mind any limitations on the railways' freedom
28 to make rates in Canada that ought to be changed?

29 A. Well, I am not as familiar with the
30 actual application of your own restraints as would be



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2 desirable to answer that question with reference to the
3 Canadian situation. It seems to me that in general,
4 however, greater freedom is certainly warranted than
5 has been customary in the United States and that what
6 we generally require for the maintenance of a reasonable
7 position for the public on the one hand and a
8 reasonable latitude for the railroads on the other is
9 to secure appropriate standards for the control of
10 minimum rates on the one hand and maximum on the other
11 leaving freedom between for adjustment as the carriers
12 see fit in the exercise of their managerial prerogative.
13 We suggested in the Department of Commerce studies that a
14 measure of minimum rates would be the appropriate
15 marginal cost level, and we also said that so far as
16 things now stand and in view of the high degree to which
17 our rates depart from any such cost standard it would
18 not be inappropriate as a rough approach, and as a way
19 of getting started, to use the Commission's out-of-pocket
20 costs recognizing all of the deficiencies there may be
21 in those costs in respect of particular types of traffic
22 that fall some margin apart from the averages. So
23 that when I talk of greater latitude I had in mind
24 especially the situation that our own railways have
25 been in over a period of years and in that they have
26 been, I think, more seriously tied than your own in
27 meeting competition, and that partly results from the
28 fact that they re-regulate a larger part of the com-
29 petition than you do in Canada.

30 Q. How essential, in your view, is the



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2 establishment of minimum rates, having in mind that you
3 say on page 38, in paragraph (b) and continuing over
4 to page 39, "That carriers will, in competitive rate
5 making, fix rates not only above the relevant marginal
6 cost but also at that level above cost which will maximize
7 the contribution to burden from the traffic in the light
8 of the competitive circumstances. This would be
9 anticipated of carriers in their own interest, quite
10 without public intervention." Do you see any real
11 danger in abolishing any legislated minimum of rates?

12 A. I certainly do in the United States, and
13 perhaps a description of the reasons that I think so
14 with respect to the United States can be translated by
15 some of you into whether it has any relevance with respect
16 to Canada.

17 Back in 1954 and 1955 when the cabinet committee
18 on transportation policy and organization was considering
19 this matter, they were inclined to recommend a wide range
20 of freedom for our carriers and considerable revision
21 of the law. Upon further examination of that situation
22 we came to the conclusion in the later Department of
23 Commerce report that the time was probably not ripe to
24 go quite that far. One of the distressing difficulties
25 here is that few, if any, of our railroad companies are
26 equipped, in fact, to know what their own interests are
27 with respect to rate making. They do not have regular
28 organized proceedings for cost finding or cost applica-
29 tion. The situation is indeed in such a shape that
30 one of our very large railroads is content to feel it



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2 makes a very substantial contribution if it takes the
3 Form A costs -- developed from its own figures and not
4 the territorial average costs -- and then looks at the
5 rates which exceed 400 per cent of the fully distributed
6 cost, and on the other side to look at those which
7 represent only 50 per cent of the out-of-pocket costs
8 or the Form A, on the notion that it is quite possible
9 all those are unremunerative rates. They think they
10 have enough of a test looking at rates within that range
11 for the present, so they don't have to worry about more
12 refined cost finding techniques until some time in the
13 future. I took the attitude we needed a continuance
14 of minimum rate control not because the economic situa-
15 tion, so far as the economic structure of transportation
16 goes, compels it in theory, but rather because they
17 have operated under regulation, so far as our railroads
18 go, since 1887 and substantially since 1906 and they
19 have not found need to nor have they developed the
20 kinds of deals that many other private businesses find
21 basically essential in order to exercise a pricing
22 function. So that, we recommended on the one hand
23 some real progress and until we started and had such
24 deals we still required a minimum rate restraint.
25 We were fearful if we eliminated it we would find
26 ourselves in no small difficulty. We did propose,
27 however, that the Commission in looking at minimum rates
28 look at them more from the point of view of economics
29 than from the point of view they employed in the past.
30 ---Short recess.



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3 THE CHAIRMAN: Order, please.

4 MR. CUMMING: Q. On page 39, in paragraph
5 (e), there is the suggestion "that a test of the maximum
6 reasonable level of rates be devised and applied as an
7 alternative to the increasingly unserviceable traditional
8 tests...". Would you venture a definition of what the
9 tests should be for the maximum reasonable level of
10 rates?

11 A. Well, I think the only definition I could
12 give is that a maximum reasonable rate ought not to
13 exceed what would be a level of average rates that
14 would produce the necessary return to sustain the
15 railroad system at a level of traffic that such rates
16 could induce.

17 THE CHAIRMAN: Just and reasonable?

18 THE WITNESS: What that means is the only
19 way that such a level could be ascertained according to
20 that principle is to make a study that, admittedly,
21 involves some degree of speculation as to what would
22 occur, especially on the demand side, and to ascertain
23 it in effect by calculation.

24 It would necessarily be a moving standard.
25 It would have to be applied with some degree of
26 flexibility. I do not think ultimately there is any
27 hard and fast answer to this question of what amounts
28 to a just and reasonable level of rates.

29 I do think that a better judgment about it
30 can be reached with a different sort of test than that



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2 which we have traditionally applied, and I would be
3 inclined to think that that sort of a test is about the
4 best one and certainly the one most thoroughly founded
5 in economic precept that one could find to apply.

6 Q. Do you regard as an essential hand maiden
7 to any scheme of maximum rate control a greater element
8 of freedom to the railroads to abandon unremunerative
9 services and lines?

10 A. I do not think that is a necessary pre-
11 condition to an appropriate maximum rate control. It
12 may, however, well be something that is necessary if
13 one is to succeed in sustaining the railroad system out
14 of its own revenues over a period of time. But at least
15 under the approaches that is the way usually taken to
16 these things. The shipper is, in any event, entitled
17 to a just and reasonable rate, as defined by an
18 appropriate economic standard, and the question
19 whether when that is done the revenue position is
20 adequate to sustain the railroad system, as it certainly
21 must be, is in essence a separate question, I think.

22 Q. And then to the extent that the railroad
23 revenue requirements may not be met out of revenues and
24 yet there is still the maximum rate regulation, where
25 is the deficit to come from?

26 A. Well, you see, any such maximum standard
27 as I propose is in the first instance related to what
28 the level of railway costs may be, and, in consequence,
29 it is itself a shifting standard.

30 If one were dealing with a situation that



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2 worked entirely in accord with economic analysis, one
3 ought not to find that such a standard resulted in a
4 deficiency of revenues. But it is likely to do just
5 that if you have a situation where there are substantial
6 losing services and losing portions of a railway system
7 grafted onto the rest. If you let economics take its
8 course, that pre-supposes if you are willing to dispense
9 with non-compensatory services and with non-compensatory
10 lines to the extent that the economic process is not
11 allowed to work to that degree, then there is the
12 question where are the revenues to come from? In effect,
13 what I am asking here is that the revenues to support
14 those kinds of services that are deemed to be necessary,
15 notwithstanding the inability of revenues to take care
16 of them, ought not to be placed upon the shippers of
17 freight beyond what would be a just and reasonable rate
18 for them. That leaves open a possibility, perhaps, of
19 some form of subsidy, if it is determined that as a
20 matter of public policy that these losing services or
21 lines have to be continued, and I think maybe the
22 answer would be in that direction, if that kind of a
23 decision is reached.

24 Q. Would you envisage that a scheme of
25 maximum rate regulation would still carry with it the
26 need for general revenue cases? Or, could it be self-
27 adjusting?

28 A. In itself, I do not think it carries any
29 such necessity, but if one were faced with substantial
30 inflationary pressures, it seems to me that with or



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2 without such a standard the general rate level
3 proceeding might prove to be a necessity. But I do not
4 think that it would be affected one way or another by
5 the standard of reasonableness proposed here. The
6 standard itself would be an adjusting thing. It would
7 adjust along with an inflationary or deflationary change.

8 Q. Thank you, Dr. Williams.

9 There was one point which is perhaps outside
10 the ambit of your brief, but now that you are here I
11 would like your views, if you would care to express
12 them as a transportation economist. Do you see in the
13 foreseeable future any significant development in the
14 movement of commodities generally by air cargo? What
15 is in your view the future of air cargo?

16 A. Oh, I think in terms of its present
17 situation it has a very brilliant future. We are in
18 the position where it begins to appear that we shall
19 have serviceable aircraft designed to meet cargo
20 requirements within the not distant future and that
21 what we should be able to do in the United States, at
22 least, is to bring the level of our air cargo rates
23 down from something of the order of 18¢ a ton mile, on
24 the average, to something bordering on 12 or 13 cents.

25 Those ton mile costs apply, however, to air
26 line distance, though they would convert into lower
27 figures comparatively on surface transportation. And,
28 under those circumstances, I would anticipate that air
29 cargo would find it possible to cultivate a quite
30 substantial market.



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2 This is a market, however, which I think
3 would fall in the category of high grade manufactures
4 and miscellaneous traffic; traffic moving on less
5 carload lots -- perhaps some forwarder traffic, and the
6 like -- and I would think in the United States, at
7 least, the impact of air transportation would be felt
8 more heavily by the trucking companies than it would be
9 felt by railroad companies, partly because we have a
10 large amount of very long haul high grade merchandise
11 moving by truck under our present rate relationship.

12 THE CHAIRMAN: Because the railways have lost
13 it already.

14 THE WITNESS: The railways have lost it to
15 trucking companies. We have a trucking company in the
16 West, for instance, that has an average of 1,500 miles
17 in high class merchandise traffic, which is, of course,
18 the opposite of what you would expect, given the
19 economic characteristics of rate making in relationship
20 to railroading.

21 We have a situation where the Rock Island
22 railroad in the West, for example, in its entire
23 territory find the average haul of its motor truck
24 produce to be 600 miles, while the haul on the
25 railroad is something less than 300.

26 Now, I think that that traffic is likely
27 to prove rather vulnerable -- some of it, traffic
28 transcontinental in character, moving from Chicago to
29 the mid-west to the Pacific Seaboard and from Chicago
30 and the mid-west to the east itself, and I would be



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2 inclined to think the impact on the trucks is going to be
3 rather more severe, particularly in the area where they
4 have extended far beyond their normal economic sphere.

5 But when all is said and done, this brilliant
6 future for air cargo is brilliant in terms of what air
7 cargo has been in the past, and it does not mean that
8 I expect to see tremendous transfers of ton mileage
9 into the air, because the bulk of our freight
10 transportation is, after all, a short enough haul, and
11 the bulk of it, also, falls in categories of goods that
12 are low enough valued to stand rates, even at the
13 perspective levels.

14 MR. CUMMING: That is all I have, Mr.
15 Chairman.

16 COMMISSIONER MANN: On that point, Dr.
17 Williams, you mentioned earlier in answer to a question
18 by Mr. Cumming -- you said the impact of air cargo
19 development will be primarily felt by the trucking
20 industry. Would you go so far as to say that to the
21 extent the trucking industry uses piggy-back over
22 medium and long distances that effect will be felt by
23 the railways?

24 THE WITNESS: Well, yes, to the extent that
25 is the case. If the traffic is diverted, it will be
26 a diversion, at least in part, from railroads. Of
27 course, at the present time, we are moving in the
28 United States under piggy-back services a volume of
29 traffic in carloadings that represent less than 2% of
30 weekly carloadings. Some of that is traffic moving



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2 under plan 1, entirely under the control of railroads,
3 so that the impact would hardly be substantial. If
4 we had a major diversion all over the road, common
5 carrier truck transportation, to a piggy-back form of
6 service, than the impact would certainly be felt on the
7 railroads.

8 THE CHAIRMAN: Mr. Brazier?

9
10 CROSS-EXAMINATION BY MR. BRAZIER:

11 Q. Dr. Williams, in several places in your
12 brief you quote from the Rationale of Federal
13 Transportation policy of April, 1960. Has that
14 document been published? Is it available?

15 A. It was published by the Department of
16 Commerce. It was published not as a document having
17 the approval of the department, but as a document over
18 my signature and that of David Bluestone, my assistant
19 director.

20 Q. It is not referred to, I note, in the
21 bibliography of reports.

22 A. No, I think the report you have is the
23 report of the secretary which was issued earlier and,
24 although it was the intention at that time to issue the
25 thing which we ultimately called the Rationale, it had
26 not been issued at the time that original report was
27 put out.

28 It was designed to provide some rather more
29 detailed explanation on the direction of our thinking
30 than was in the report itself.



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2 Q. Now, Dr. Williams, I would just like to
3 ask you a few questions, maybe more in explanation of
4 parts of your brief, and I start first on page 23, at
5 the bottom of the page where you say:

6 "Although there has been increasing
7 recognition of the necessity for sweeping
8 changes in rate structure by United States
9 railroads, there is not broad agreement
10 either on the necessities or upon method".

11 Now, I suppose that is recognition by railway
12 officials in the United States?

13 A. Yes, that was the intention.

14 Q. And I presume that there have been a
15 number of different proposals made by different railway
16 officials?

17 A. Oh, quite. A considerable number, yes.

18 Q. I wonder if you would outline to the
19 Commission just one or two of the more important
20 suggestions that have been made?

21 A. Well, I think probably the most
22 important and the one likely to be the most fruitful
23 is the operation that has been carried forward and is
24 currently being carried along by the Eastern Traffic
25 Executive Association, although we have smaller
26 research groups established under the respective rate
27 making agencies in the west and in the south-west, also.
28 This is an approach that is designed to identify, in the
29 first place, areas where the railroads have lost
30 business very severely, and to try, then, to identify



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2 through market research what the reasons are for the
3 loss, what the volume of potential traffic may be, and
4 what it may take in respect both of rates and services
5 to recapture a substantial share of that traffic.

6 They have proceeded on the whole by
7 identifying first commodities which the railroads in
8 the eastern districts appear to have lost almost
9 entirely. And they face the difficulty, of course,
10 that since we do not have any commodity statistics
11 which show the movement of commodities by all forms
12 of transportation, but have that only for railroads
13 and for class 1 regulated motor carriers, they do not know
14 what the total volume of business is that might be
15 moving by, in some cases, exempt carriage, but in
16 almost all cases, by private carriage or by carriers
17 not reporting in the motor carrier statistics. So that
18 they have resorted to the Bureau of the Census as a
19 means of conducting sample studies of the total market
20 as an approach to market research so that they may see
21 what the potential may be.

22 They have then proceeded to apply a cost
23 analysis and to supplement what they may find through
24 a census sample survey with a considerable range of
25 discretion with shippers, designed to disclose what
26 the possibilities are under various rate or service
27 arrangements, or combinations, of securing some of
28 that traffic which has been lost.

29 This is admittedly a slow process. It is
30 slow partly because the chief executives of the



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2 eastern railroads have not in all cases been sympathetic
3 with this attack. It is slow partly because some of
4 the chief traffic officers have not been fully in
5 support, although others have been more or less
6 enthusiastic. It is slow also because there are very
7 great difficulties in meshing in a common undertaking
8 economists and statisticians who have their own jargon
9 and traffic officers of long experience in the making
10 of rates, who also have their own field and their
11 experience behind them, and making the two understand
12 one another so it is possible to go forward to a
13 constructive result.
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2 I think they have been making a degree of progress
3 and what they did in the Paint Case is an example of
4 the technique which they are trying to apply. This
5 is a situation in which they were dealing with traffic
6 which they had almost wholly lost and as to which they
7 did not know how it was to be distributed with respect
8 to destinations. It was all right, perhaps, as to
9 the origins but not the destinations. They took the
10 territorial average cost by the Form A as their
11 standard and they successfully carried on rather sharp
12 adjustments through the Commission basing it on a
13 showing of what their additional net revenue would be
14 if they succeeded in recapturing the volume of
15 traffic which they estimated from their shippers'
16 survey they could handle. What is distressing is in
17 cases the same as the Paint Case, so far as I could
18 find out a few weeks ago, nobody has taken the trouble
19 to cast off the figures, although they are available,
20 as to what has actually happened in the recovery of
21 the traffic except a proof check on one of the re-
22 routes. This is one of the difficult things in
23 studying rail rates because you have a big arm before
24 a regulatory proceeding and it is asked such and such
25 and now the whole thing will disappear behind a
26 shadow and you do not know what happens. Here, I
27 think, they will cast it up because it is a matter of
28 great interest to them to know whether the thing came
29 out as expected. Undoubtedly the success or lack of
30 it in the paint adjustment will have an effect on



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2 whether they come with other adjustments.

3 Q. You have been speaking, I presume, of
4 reconsideration of rates which are subject to competi-
5 tion?

6 A. Oh, yes, quite so.

7 Q. What, if any, consideration is being
8 given to rates which are not subject to competition
9 or do you have such rates in the United States?

10 A. Well, yes, I suspect we have some
11 rates of that character. Certainly we have the
12 situation where there are a good many small points
13 especially in the west, which although certainly there
14 are truck lines authorized to serve on applicable
15 rates, it is virtually impossible to get surveys
16 out of the truck lines. Secondly, such competition
17 as there is is not very effective competition from
18 their point of view. We have certain classes of
19 traffic that are still more or less railbound.
20 For instance, we do not as a rule move bituminous coal
21 from beyond one hundred miles by truck, and where we
22 haul through available transportation. Therefore,
23 this is essentially a rail movement and there is
24 no economical substitute for the rail movement.
25 Again, in the movement of iron ore away from the lake
26 and away from the inland waterway there is no substitute
27 at the present time for the railroad. We have in
28 respect of that kind of traffic precisely the same
29 problem that I have been dealing with here as to what
30 might be a measure of reasonableness in the light of



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2 the important structural changes in the composition
3 of traffi and the alteration in the rate relationships
4 that have resulted from our rate adjustments. We
5 do not have anything in particular at the present time.
6 I know that if a shipper feels he is faced with an
7 unreasonable rate he can file a complaint under
8 Section 1 of Part I and seek redress essentially by
9 the method of comparisons.

10 Q. Comparison of other rates?

11 A. Yes, comparisons on other rates, the
12 traditional method of the railways. We are getting to
13 the point where shippers are in a position to put in
14 evidence, also data on the cost of service, because
15 they can use for the purpose of confirmation costs
16 at the time from the economists' publications. That
17 is, I suspect, of some effort to them because it
18 changes a little bit the position with respect to the
19 burden of proof because it makes it necessary for
20 the railway to say that these costs are not reasonable
21 in the case.

22 Q. In the United States is there a reluc-
23 tance among the railways to discuss their costs in
24 transportation before the ICC?

25 A. There was for a long period of time and
26 it took quite a while for that reluctance to break
27 down. I think it broke down out of a realization
28 that in our competitive situation and in a situation
29 where we required an important segment of our
30 motor carriers and water carriers, some of them, by no



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2 means all of them, and in view of the way in which
3 regulatory proceedings were trending there was no
4 alternative to that use of costs. In a wide variety
5 of cases they had to do that to sustain their position.
6 In short, the Commission gradually began to insist
7 if it was to deal with a going situation between forms
8 of transportation they must have economic evidence.
9 Certainly cost data are of the essence in a situation
10 of that kind. I think the carriers were certainly
11 reluctant to come to that conclusion. However, having
12 gone that far an increasing number of them have now
13 become aware of the problem and of the possible
14 application of cost finding techniques to the better
15 management of their own business and their rate making
16 work. If they want to propose rates that are good
17 for them in the first place they have to have cost
18 analyses in their organization and if they want to
19 justify them in the regulatory agencies against their
20 competitors then they must have a defensible cost
21 showing. I find little reluctance to discuss costs
22 and when you talk with railway people about this not a
23 few of them will say, "Well, we missed the boat very
24 badly and are twenty years behind the times," and so
25 on and so forth. There is a schism between the
26 organizations that have been provided as research arms
27 and the traffic officers and the railroads and some
28 times a want of understanding between the research
29 approach and the chief executive officers. These
30 things, I think, have greatly altered.



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2 Q. So, it would be true to say that there
3 is a trend towards greater emphasis on cost matters
4 in rate making in the United States?

5 A. Yes, I think there is no doubt about that.

6 Q. In that regard may I just quote very
7 briefly from the federal transportation policy programme
8 of March 1960, on page 4:

9 "What is needed is broad general revision
10 of traditional rate structures to bring
11 them more closely into accord with cost
12 structures."

13 I presume your opinion is that that is a sound policy
14 to follow?

15 A. I think it is very sound, but unhappily
16 it is a very difficult thing to undertake, as I am
17 sure you well know. In our regulatory situation I
18 think it is not possible that what the railroads are
19 undertaking to do, although I think it moves rather
20 more slowly than it ought to, the wisest course for
21 ultimate results is taking these things piece by piece.
22 As a practical matter the broad revision that I think
23 necessary and would hope for all along the line is
24 a thing which if by some process arrived at by the
25 railroads it is rushed, our Commission would give
26 us a totally indigestible procedure. We might get
27 far more bogged down. Basically what I was talking
28 about was a broad end result in a period of time, but
29 not necessarily a suggestion we should go and scrap
30 what we have and substitute something else almost



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2 overnight.

3 Q. I would presume you would not find
4 among railway people or railway economists anyone who
5 advocates that you could just turn the rate system over
6 in a very brief time?

7 A. I do not think so, certainly not any
8 who have had any close acquaintance with our regulatory
9 procedures or with the carriers' procedures would
10 look for such an overnight structural change.

11 Q. Would you look more for change over a
12 five-year or ten-year period?

13 A. Well, I think more likely ten than five.

14 Q. On page 29 of your brief you made this
15 statement, and I think probably Mr. Cumming mentioned
16 this to you:

17 "Nor, if the value of the service be
18 said to measure the upper limit of
19 reasonableness, have we ever had abstract
20 tests of value of service which did not
21 involve us in circular reasoning."

22 You are speaking in terms of justifying a rate being
23 a just and reasonable rate?

24 A. That is right, and referring to a
25 test that is something other than a comparison with
26 the pattern of rates. We have generally taken the
27 view that the value of the service sets the upper
28 limit of the rate. Our trouble has been that we have
29 had no independent measure of that value of the service.
30 In practical fact we have worked it out largely through



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2 the medium of comparison and that has been the method
3 applied. A rate may be challenged as being unreason-
4 able from the carriers' point of view because we
5 have nothing or little about transportation service
6 with respect to any changes in the rate. If they
7 wanted to have the report before them they must
8 mechanize the whole thing to experiment with what a
9 rate would produce in practical application.

10 Q. Would it be your opinion that today's
11 cost factor should be given some consideration in the
12 determination of reasonable rates?

13 A. Well, I think they always have been.
14 What is really being so much discussed today, I think,
15 is a shift from value of service to cost, but it is
16 a change of emphasis in the relation of the two. Cer-
17 tainly the kind of standard that I have been talking
18 about and which I think Mr. Roberts will expand
19 considerably upon, is a kind of test that is directly
20 related to a cost standard. This is related to a
21 cost standard; it is not however, strictly speaking a
22 cost standard.

23 Q. Going back for a moment to this question
24 of maximum scale of rates which would be the maximum for
25 so-called captive traffic, two ideas, at least two ideas,
26 have been put before this Commission to date, one by the
27 Province of British Columbia, which I represent,
28 suggesting that the maximum scale of rates should be
29 fully allocated costs possibly plus 5 per cent or 10
30 per cent.



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2 The other scheme, put forward by the Province
3 of Albert, and undoubtedly you have read it -- Mr.
4 Harries' proposal -- that the maximum scale of rates
5 should be 140 per cent of the lowest competitive rate.

6 MR. FRAWLEY: Of course my friend under-
7 stands the 140 per cent was just a figure which Mr.
8 Harries took and he emphasized it must all be sub-
9 jected to a very close analysis by the Board of
10 Transport Commissioners.

11 MR. BRAZIER: I think that is true.

12 MR. SINCLAIR: It happened to be related
13 to ---

14 MR. FRAWLEY: Mr. Sinclair is talking about
15 Dr. Roberts and Mr. Harries and they are two different
16 independent approaches.

17 MR. SINCLAIR: They happen to be the same.

18 THE WITNESS: Did you pose a question?

19 THE CHAIRMAN: You have probably read the
20 evidence of Mr. Harries and Mr. Hughes?

21 THE WITNESS: I have read parts of it
22 although not with any great care, I am afraid.

23 MR. BRAZIER: Q. Now, doctor, would you
24 care to comment on those two proposals that have been
25 made? As I understand it there is criticism of both
26 proposals and you are a man of very considerable
27 standing in the field of the economics of transporta-
28 tion. I would appreciate -- I am sure the Commission
29 would appreciate receiving any comments you wish to
30 make with respect to both of those, and you may deal



1
2 with them separately.

3 1. I would first make a general comment that
4 I think, while it is a rather dangerous and inflexible
5 procedure to adopt, some kind of a maximum structure
6 of rates more or less across the board would seem to me
7 to be more reasonable and more appropriate to establish
8 in principle; a standard that might be relied upon
9 by those inclined to complain of an alleged unreason-
10 ableness in particular rate situations so that the
11 standard could be applied in the context of the
12 particular situation and the necessary judgment
13 exercised by the Board of Transport Commissioners. I
14 do not think this kind of thing lends itself very read-
15 ily to a mathematical formulation, certainly not one
16 that, in my opinion, in any way ought to be introduced
17 into a statute.

18 Now, quite clearly, any standard that would
19 be related to tests derived from the probable level
20 that rates would have to take, if they were equal
21 rates in the light of the volume of traffic that would
22 come under such a situation would, of course, be a level
23 that lay above a fully distributed cost determined
24 from an historical period with quite a different
25 traffic level. It seems to me clear that any standard
26 for maximum reasonable rates is a standard of fully
27 distributed costs. The question of how much above
28 is, it seems to me, not a question we can answer on
29 the basis of such information as we have presently
30 available. Certainly I can answer it on the basis of



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2 what information I have, but I think it is entirely
3 possible that it might not be greatly different from
4 some such figure as 140 per cent. I do not know
5 whether that would be true. I do not think it can be
6 ascertained without considerable study which certainly
7 I have not made and would not perhaps be able to make
8 from such information as is presently available.

9 Q. There was one qualification of the British
10 Columbia proposal which I did not mention and I think I
11 should mention it to you and then ask for your comments.

12 The proposal of British Columbia is that its
13 maximum rate scale would only apply to captive traffic,
14 that so far as competitive traffic is concerned the
15 competition would be the regulator and we would do away
16 with any form of maximum regulation as far as competitive
17 traffic is concerned.

18 Now, would that qualification change your
19 opinion at all?

20 A. I do not think so. Generally speaking,
21 even if one is talking about captive traffic only, that
22 is the kind of thing that I would be inclined to want to
23 deal with with some degree of flexibility vested in
24 the Board of Transport Commissioners. I think that is
25 an essential requisite, especially if it should be true
26 that some of your captive traffic deals in relatively
27 basic raw materials or items in the early stages of
28 processing. This is a case involving marketing pro-
29 blems that are of not inconsiderable consequence and
30 it would not be unwise to apply purely mechanical stand-
dards in determining what ought to be done.



1
2 The notion that such a test would be applied only to
3 captive traffic is one we worked a little bit with
4 at the time of the cabinet committee on transportation
5 policy and organization. We started out by feeling
6 that in view of the wide range of competition in the
7 United States we didn't require maximum rate control at
8 all. Upon further examination, however, we reached
9 the conclusion there was still a fairly substantial
10 volume of captive traffic as to which some protection
11 would be necessary and, in essence, we proposed a
12 retention of maximum rate control and application on
13 traffic which was shown to be substantially not com-
14 petitive traffic -- in other words, essentially captive
15 traffic.

16 Q. I presume the situation is the same in
17 the States as it is in Canada today, that your class
18 rates are actually your maximum scale of rates; is that
19 true?

20 A. Generally speaking. It is very rare and
21 a most exceptional circumstance for a commodity rate to
22 exceed a class rate.

23 Q. Do you have instances where they do exceed
24 them?

25 A. Some few. But, as a general rule even
26 though on an interpretation of the tariff it might show
27 the commodity rate would have to apply because there was
28 no alternating rule, there would be a prima facie case
29 that commodity rate was unreasonable because it did
30 exceed the class rate. Generally speaking, the class



1
2 rates are maximum rates and a good part of them have
3 been prescribed as reasonable maximum rates.

4 Q. Would you agreed with the proposition
5 that in effect the class rates are an arbitrary maxi-
6 mum?

7 A. Well, they certainly are in practical
8 effect pretty much a maximum with us. I am not sure
9 I like the word "arbitrary" as applied to them. Cer-
10 tainly they were not determined in an arbitrary fashion,
11 if that is what you meant; but, rather, after quite
12 long and careful consideration.

13 Q. Were they evolved through the old process
14 of determining the value of service rather than the new
15 concept which you suggest in your brief?

16 A. Well, it is very hard to know really
17 how scales of rates are established so far as they
18 are prescribed by the Interstate Commerce Commission.
19 The Commission would probably say that it never pre-
20 scribed any rates in connection with which it didn't
21 consider both cost and value of service. In the
22 case of prescribing class rates one would find in the
23 report some discussion both of costing factors bearing
24 on the matter and of value of service factors bearing
25 on the matter. It is quite commonly a case, however,
26 that most of the attention is focused on the first class
27 rates and that there is not a showing of costs cast
28 up against the whole range of class rates that are
29 presented, because when we prescribe the class 100
30 scale we are prescribing a whole nest of scales some



1
2 of which quite commonly go down to $17\frac{1}{2}$ per cent or even
3 less of the class 100, and nothing would be said in
4 these proceedings about that issue, neither are they
5 generally tested against a cost standard -- have not
6 been in class rate proceedings in the United States,
7 at any rate.

8 Q. You said some of them had reference to
9 cost figures in their determination: were they true
10 cost figures or were they based on average revenue
11 figures?

12 Q. In the prescription of class rate scales,
13 so far as I recall, prior to docket 28300, the class
14 rate scale of 1939, there was never a cost study as
15 such presented in connection with a case involving
16 scales of class rates. The discussion on the scales
17 of class rates would run in the older and more general
18 terms, as to general understandings of the relation-
19 ship of costs and the various lengths of haul as to
20 what the cost function would be over the ranges of
21 all that would be involved. The assumption would
22 be that the classification took care of the differ-
23 ences in cost factors related to the commodity itself,
24 and that was not in issue. In many of those cases,
25 the matter of revenue was not in issue either, and such
26 test as was applied, by a traffic test or otherwise, to
27 the proposed scales usually was nothing more than a
28 test designed to disclose whether the scales about to
29 be prescribed would produce equivalent revenue to the
30 rates hitherto in effect.



1
2 Q. You have some reference in your brief
3 to classification: the bottom of page 35, "The value
4 of the service by railroad is coming more and more to
5 be fixed by the cost of performing a substitute service
6 by some other form of transport. Many of the tra-
7 ditional classification principles are deprived of
8 their accustomed usefulness in circumstances such
9 as these and this is especially true of such weight
10 as might ordinarily have been given to the value of the
11 commodity in seeking its proper position among the
12 classification ratings." Is it your opinion that
13 this revision of the rate structure also requires a
14 revision and a reconsideration of the classification
15 in the United States?

16 A. I would certainly think so. We have
17 had a study made by one railroad which suggests that
18 out of some ten thousand items which we show in the
19 uniform classification on the lines of that company --
20 and, a fairly large company -- only about one thousand
21 of those items could be picked up as representing
22 actual traffic movements. This would suggest that the
23 problem of paper rates, rates which no longer move
24 any traffic because the traffic has gone elsewhere, or
25 in some cases the commodity may have become obsolete --
26 although, I think the case of competition diversion
27 is the most common -- this would suggest we have an
28 awful lot of classification ratings which when taken
29 in conjunction with the class rate structure do not
30 produce rates which will move in competition with some



1
2 other form.

3 COMMISSIONER MANN: Aren't some of your
4 commodity rates geared to classification ratings?

5 THE WITNESS: They are. They are sometimes
6 published as percentages of the Class 1 rate. In
7 other instances we have somewhat slightly different
8 scales prescribed for commodities, but a good many of
9 them are tied to the class rate scale.

10 MR. BRAZIER: Q. I would like to make
11 reference to your book Regulation of Motor-Rail Com-
12 petition, which was published in -- was it 1951
13 originally ---

14 MR. FRAWLEY: 1958, we said this morning.

15 THE WITNESS: Published in 1958.

16 MR. BRAZIER: Q. In your book on page 162
17 you make reference to the unique New England Classifi-
18 cation, and I wonder if I could read that passage:

19 "Though the unique New England classifi-
20 cation might be subject to reaction it
21 was generally supported by the shippers
22 and was adopted as a basis for the class
23 rates prescribed as minima. In general,
24 shippers expressed the belief that it was
25 only by adoption of the density principle in
26 classification that they could be assured of
27 enjoying the benefit of the 'inherent
28 advantages' of motor transport. The
29 Division found that 'from the standpoint of
30 abstract reason there can be little doubt



1
2 that the theory . . . is the sounder of the
3 two."

4 First, I wonder if you would describe to
5 us -- and, in my reading of this, the classification is
6 a motor carrier classification and not a rail classifi-
7 cation?

8 A. That is right.

9 Q. Would you tell us its unique features?

10 A. Well, its principal feature of unique-
11 ness was that the carriers chose to classify their
12 commodities almost solely in the first instance on the
13 basis of what is referred to as density; that is,
14 simply the relationship between the cubic space
15 occupied in the vehicle and the weight. So that,
16 you might say the test they used was the weight per
17 cubic foot, observing that the transportation unit --
18 and this is true of all transportation units -- has
19 really two dimensions of capacity: one the cubic space
20 that it can encompass within the vehicle, and, secondly,
21 the weight lifting ability which it had. That is
22 on the whole a somewhat more important thing to a motor
23 carrier than it is to a railroad because at least
24 until size and weight limits are liberalized further
25 they do suffer from the problem of getting adequate
26 cubic dimensions to deal with some kinds of traffic
27 effectively. Accordingly, they would in that
28 classification express the ratings to be assigned to
29 different commodities in terms of the density of the
30 commodity. That is the weight-cube ratio. In



1
2 effect, they said, "This is the most significant thing
3 and if we can get a set of ratios that are compatible,
4 what we come out with is that no matter what commodity
5 or combination of commodities we load, if we load them
6 that way, and do not exceed its weight-carrying
7 limit, on any such combination we will have approxi-
8 mately the same vehicle mile revenue when this classifi-
9 cation is applied."

10 In the first place, it is a quite simple
11 approach, and it makes -- it is obviously a rather
12 intriguing approach. It resulted in the New England
13 case, however, in lots of trouble, because other parts
14 of the country did not adopt that form in the motor
15 industry, nor were the railways using it, and so it
16 became necessary to publish a more than usual number
17 of competitive rates in order to meet railroad rates
18 derived from a classification based on different prin-
19 ciples.

20 Q. The classification then, in fact,
21 ignored the value of the commodities?

22 A. They did, with very minor exceptions.
23 Of course, they necessarily had to bear in mind they
24 did have a risk as an insurer. The value of the
25 commodity is a measure, certainly, of the risk the
26 carrier assumes as an insurer, and from that point of
27 view the value of the commodity really relates to
28 that particular element. So, it would be
29 necessary to graft on a pure classification factor
30 some way in taking care of the high risks of the



1
2 unusually highly valuable commodities.

3 Q. Was that classification allowed to
4 go into effect in the United States?

5 A. Yes, and it is still in effect.

6 Q. Has it been adopted elsewhere?

7 A. Not to my knowledge in the United States.
8 It is still a peculiarity of the New England motor
9 carriers. Generally elsewhere they use a classifi-
10 cation that is very similar to the railroad classifi-
11 cation and they adjust their classification ratings on
12 very like principles. You can read the discussion
13 of the business of classifying freight produced by
14 their classification man, and you can probably transfer
15 it in almost all respects over into similar work
16 written from the point of view of the railroad classifi-
17 cation. It is similar, of course, in principle
18 to several other things. Elsewhere, for instance,
19 this is essentially the same thing as the loadability
20 concept which the British railways adopted in their
21 maximum charges scheme. It also bears a relationship
22 to the practices of ocean carriers in dealing with
23 general cargo rates where instead of developing an
24 elaborate classification of commodities they use the
25 method of quoting weight or measurement, ship's option,
26 which enables them to charge for a measurement ton
27 or a weight ton depending on the density of the com-
28 modity.

29 ---Adjournment.
30

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ON

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HEARINGS

HELD AT

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NO EXHIBITS IN THIS VOLUME



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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 18th day of October, 1960.

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Ottawa, Ontario,
Tuesday,
October 18, 1960.

--- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please.

MR. COOPER: Mr. Chairman, I have a letter from Mr. Rand Matheson, General Manager of traffic at the Dominion Steel and Coal Corporation, Limited, which I should like to put on the record. It concerns questions raised during the course of Mr. Matheson's examination by Mr. McDonald of the Canadian National Railways.

Mr. McDonald put the following question to Mr. Matheson:

"Q. On the basis of your shipments for 1959, how much would it cost the treasury if your suggestion were adopted?"

And answers and further question were as follows:

"A. MR. MATHESON: I haven't worked that out.

"Q. I think that might be of interest to the Commission. Could you work that out and give it to the Commission?

"A. MR. MATHESON: We will make an estimate and give it to the Commission."

The information is as follows, as contained in this letter from Mr. Matheson, dated October 5, 1960, and I quote from Mr. Matheson's letter:

"The additional assistance under our proposal predicated on the 1959 volume of shipments



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2 originating at the Sydneys, Trenton, N.S. and
3 aint John, N.B. (exclusive of coal) would
4 amount to approximately \$1,066,000.00.

5 "It is to be appreciated in this connection
6 that the amount of payment would vary upwards
7 and downwards contingent upon business
8 conditions, etc."

9 That is the end of the quotation and the
10 letter.

11 CROSS-EXAMINATION BY MR. BRAZIER (resumed)
12

13 Q. Just a few more questions for Dr. Williams.

14 Dr. Williams, will you turn to page 35 of your
15 brief? In the paragraph starting in the middle there,
16 you make reference in the first sentence to "the economic
17 advantages of the railroad technology".

18 Would you tell me what you consider the
19 economic advantages are that you are speaking of there?

20 A. Well, by comparison with other forms of
21 transportation I think those advantages would fall into
22 two main heads. One is the economy of line haul
23 transportation which the railroad is capable of
24 achieving and exceeds, generally speaking, any form of
25 inland transportation that we have with the exception of
26 water transportation where we have available natural
27 waterway conditions that make it possible for effective
28 large scale navigation to be provided at a limited
29 amount of expense. In the improvement of the waterway
30 itself and with the exception of relatively large



1
2 diameter pipelines, the railroads' economy is very
3 largely to be found in the line haul operation, and it
4 is naturally enhanced when the railroad has available
5 for handling large volumes of traffic and is capable
6 of giving full effect to that line haul economy through
7 movement in quite heavy train loads.

8 The railroad, of course, in the ordinary
9 situation achieves those line hauls economies at the
10 expense of considerable terminal costs. And in the
11 handling of many types of traffic in terminals, it is a
12 less flexible instrument as well as a more expensive
13 instrument than, for example, a trucking operation.

14 On the other hand, a trucking operation is one
15 which is characteristically encumbered with very heavy line
16 haul costs so that, although the terminal expenses may
17 be lighter than rail expenses, under many circumstances
18 their line haul costs will multiply very rapidly with
19 the length of haul. So, often at comparatively short
20 lengths of hauls, it becomes more economical to effect
21 a movement by railroad, if there is a volume that
22 permits reasonably good train loading.

23 The second advantage of the railroad, I think,
24 is its adaptability.

25 Water transportation, in many instances, and
26 pipeline transportation are much more specialized
27 instruments that are generally most adaptable to the
28 movement of certain bulk commodities in large lots.

29 Our success in using water transportation for
30 the package movement of general cargoes in competition



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2 with a railroad system on the whole has not been very
3 satisfactory, although it is conceivable that in some
4 applications we may make it so by the use of
5 containerization. But I think it is the wide range of
6 capability in the railroad that I would put as its
7 second large advantage.

8 Q. Would it be your opinion, Dr. Williams,
9 that the new railroad technology has made the distance
10 factor less important so far as costs are concerned?

11 A. I think that is probably true, in some
12 degree, if we are talking about the costs of point to
13 point movement, inclusive of terminal costs, because its
14 application to the present time, at least, has had its
15 impact primarily on the line haul, and I would think the
16 overall effect, if one were capable of studying that in
17 full, would be as you suggest.

18 Q. Now, on the following page of your brief,
19 page 36, you use the phrase "mechanical adherence to a
20 cost standard".

21 I wonder if you would mind explaining what you
22 have in mind in the use of that phrase?

23 A. Well, I used the term "mechanical" perhaps
24 in the sense of what one might call alternative; not in
25 the way of a slavish adherence. I think that in fact
26 any cost scales that we are likely to develop have the
27 demerit that they cannot possibly represent the variety
28 of circumstances that are occasioned in connection with
29 particular hauls; and that it is the better course,
30 certainly, unless a scale, let us say, of maximum rates



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2 were high enough in relationship to the cost structure
3 to allow great latitude for adjustment below it, to
4 permit of considerable deviation in detail where it
5 could be shown that particular circumstances differed
6 from those that might be assumed in any such scale
7 construction.

8 What I am arguing for is that a little more
9 flexibility is required then to take perhaps a cost
10 function and graph it and then apply it without variation.

11 Q. But you think greater emphasis on the cost
12 factor is advisable?

13 A. I think it is not only advisable but if
14 we are to secure good economic results, quite patently
15 necessary.

16 Q. On page 37, under "A" there, you state:

17 "That carriers will put in force or continued
18 force no rates which lie below the appropriate
19 cost."

20 Would you explain what you mean by "the
21 appropriate cost" there?

22 A. Yes, I think that this is one of those
23 situations which gives everybody a great deal of
24 difficulty as to what the level of cost is that ought to
25 be applied. This really has been a most controversial
26 element in our rather wide range discussions of the
27 subject over the last five or six years in the United
28 States. There, however, mostly because of the
29 competition among types of transportation within the
30 regulated structure.



1
2 My feeling about that would be that an
3 appropriat cost, when a new rate is to be established,
4 looking towards a movement of traffic that is presently
5 handled by railroad, or looking toward the recapture,
6 perhaps, of a substantial amount of traffic that has
7 been lost, would be a cost that had been calculated
8 with reference to the expected increase in the cost
9 structure resulting from that addition of traffic.

10 Now, if, however, we have occassioned test
11 rates already in existence on presently moving traffic,
12 we would fall back, I think, on what we like to call
13 in transportation circles "out-of-pocket costs", but
14 what the economist would term a "marginal cost".

15 The question that we are asking, after all, is
16 whether or not the carrier would be better off with the
17 traffic at the rate that exists or he would be better
18 off to shed the traffic, if no higher rate than that is
19 capable of being charged.

20 It is really the other side of the same coin.
21 It is a question more, perhaps, of alternative cost than
22 of anything else. What seems to me really relevant is
23 to consider the relative cost levels at the differing
24 volumes of traffic that would result from alternating
25 the rate structure.

26 Q. Dr. Williams, would you consider it
27 proper for the railways to be permitted to put in rates
28 lower than necessary to meet the competition if, by doing
29 so, they could maximize their net revenue?

30 A. I really see no objection to that, Mr.



1
2 Brazier. That is certainly true in the case of carrier
3 competition if, for example, we have a situation in which
4 -- and possibly I might cite an example that would
5 clarify the thing. Several of our railroads some years
6 back made a study of the cost, simply using the Interstate
7 Commerce Commission formula, cost of handling each
8 commodity category of traffic which they had in their
9 possession. The results which they found ranged from
10 one commodity, which was moving at some eight times the
11 fully distributed costs -- that is, the revenues were
12 some eight times the fully distributed costs. Others
13 were at a substantially lower level.

14 Now, in a situation of that kind on that
15 particular high rated commodity in the course of a whole
16 calendar year they had only twenty-four carloads of
17 traffic, and upon examination it appeared that the only
18 reason they had the twenty-four carloads of traffic is
19 that there was a particular service at one of their
20 terminals which was not available from any of the
21 trucking companies. It would in that territory very
22 likely have cost about one-half as much as the level of
23 that rate to truck. Such traffic, and quite clearly
24 the great majority of it all was being trucked.

25 Now, in a situation like that, it also appeared
26 that the fully distributed costs by railroad were only
27 about one-third the cost by truck. And it would be a
28 proper result, I think, both for the railroad and for
29 the public interest in such a situation if the carrier
30 were to make a rate that would secure for it under those



1
2 circumstances all of the traffic; that is to say, if
3 the rate below the level of truck cost and sufficiently
4 below to offset any differential in service and to do so
5 quite affirmatively.

6 On the other hand, I think the carrier ought
7 not, either in its own interest or in the interest of
8 the shipping public generally, take that rate lower than
9 is necessary to accomplish such a result. I think the
10 test would be the one you suggest, that level of rate
11 which would have the effect of maximizing its net
12 revenue above its variable costs associated with the
13 traffic, and I would see no objection, although as you
14 are probably aware for some thirty years we have acquired
15 -- since less than thirty, twenty-five years now, since
16 the passage of the Motor Carrier Act -- and until we got
17 into great controversy in the last two years, the
18 principle that among our regulated carriers none of them
19 ought to be allowed to do any more than to meet their
20 competition. But, from an economic point of view, the
21 meeting of competition does not seem to me to give any
22 answer to where the rate relationship ought to be.

23 COMMISSIONER MANN: Dr. Williams, if I may
24 interrupt for a moment. You have made, perhaps I might
25 say, a categorical statement that carriers ought to be
26 allowed to make rates lower than necessary to meet the
27 competition.

28 Now, is there any qualification that you
29 yourself want to put into that. What I have in mind,
30 Dr. Williams, is a case where the making of such rates



1
2 may be designed or may have the result of eliminating
3 the competition. Are there any safeguards that you want
4 to suggest?

5 THE WITNESS: Well, I was already accepting
6 what I thought was Mr. Brazier's qualification, that the
7 rate which was below that necessary to meet competition
8 was one which would maximize the net income from that
9 particular traffic to which the rate applied, and that
10 is certainly an appropriate qualification.

11 As you are surely aware, we have had an awful
12 lot of controversy about this question that comes under
13 the head of "destructive competition", which our
14 Declaration of Policy Interstate Commerce Act specifically
15 mentions.

16 The Commission is under obligation to exercise
17 its regulatory powers to the end, among other things,
18 that destructive competition shall not come to prevail.

19 From the economist's point of view, however,
20 a rate, no matter what its relationship to that of some
21 competing form of transportation, which has the effect
22 of maximizing that revenue and which is in fact a
23 remunerative rate and one that falls below the level of
24 out-of-pocket costs and has the effect of minimizing
25 losses, rather than maximizing net revenue, is no kind
26 of destructive competition.

27 In short, the economist would not accept
28 as a general rule the definition which has come to be
29 applied as a matter of law under our Interstate Commerce
30 Act, or sometimes under certain other of our legislation.



1
2 It is, after all, one of the functions which the
3 economist places considerable store by, of competition
4 to prevent the development of less efficient or
5 inefficient enterprises, and should they come into being,
6 to ensure their disappearance. It is a part of the
7 regulatory process of our pricing system.

8 So that I would not, I think, be inclined to
9 put any more qualification than the one which I thought
10 Mr. Brazier suggested in the first instance.

11 COMMISSIONER MANN: What I was looking at was
12 page 17 of the volume for which you have so much
13 responsibility, namely the Federal Transportation Policy
14 and Program, where you say the government should retain
15 sufficient control to prevent destructive competition
16 aimed at driving out competitors on a basis other than
17 economic efficiency.
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2 THE WITNESS: Yes, I would certainly sub-
3 scribe to that now as I did then, but I would not --
4 taking that question of relative economic efficiency,
5 in the case we were just talking about there could be
6 no doubt that the economic efficiency of the carrier
7 makes the lower rate surpass that of the other. It
8 could be that in the first instance we had no indica-
9 tion of that. We might simply be moving from a very
10 high level of rates to a lower level of rates and it
11 would be open to the carrier whose rate had been under-
12 cut to meet it before this reduction if his own economic
13 situation permitted it in the same principles.

14 THE CHAIRMAN: All you have said is tied
15 to greater freedom on the part of the carrier in the
16 making of rates?

17 THE WITNESS: It is tied to that, yes,
18 indeed.

19 MR. BRAZIER: Q. Further on on page 37,
20 starting with the last sentence you say:

21 "Many commodity classes within the United
22 States include significant volumes of
23 traffic which appear to be moving at
24 below cost levels."

25 Is that statement related to your Appendix B or had
26 you in mind ---

27 A. Not entirely. That is part of it, Mr.
28 Brazier, but we made a study at the time of the so-
29 called Weekes committee, the president's cabinet
30 committee on transportation policy, that went a little



1
2 more deeply into matters than simply commodity class,
3 which the Commission itself reports. What interested
4 us, although it did not particularly astonish us, was
5 if you take any of these commodity groups, possibly
6 even most of them, you will find inside the groups even
7 greater efficiencies with respect to the probable cost
8 of the hauls. That is, you find many of them so I intended
9 my statement to imply a little more than merely that we had
10 had many broad commodity groups because individual dif-
11 ferences were in that kind of relationship. We also
12 found it within these more narrow commodity groups them-
13 selves in particular hauls.

14 Q. When you were making that study you were
15 measuring the revenues against average costs of hauling
16 in the particular area?

17 A. We were, necessarily. We were not, of
18 course, attempting to pinpoint a particular relationship
19 which possibly ought to be called into question. We
20 were simply trying to look at a general situation
21 so we used an average variable cost, not the out-of-pocket
22 cost, and the Commission devised their own level for
23 purposes of testing that and then compared the revenues
24 in actual movements derived from the waybill sample
25 within many of these commodity groups. You do, when
26 you employ that method, get some unacceptable and in-
27 credible results. For instance, it would appear from
28 such comparison, at least it did appear at that time,
29 that the traffic in iron ore of the United States
30 roads was unprofitable traffic. We know certainly



1
2 from the performance of the roads which are largely war
3 roads that this was hardly the case, upon further examina-
4 tion. However, if you take ore movements and do no
5 more than apply the Form A costs and make certain adjust-
6 ments for certain peculiarities in that movement you
7 come up with a cost more appropriate to the movement of
8 ore that is substantially below the average. We did
9 not have much of an opportunity to do anything in the
10 refining of that and we used the average territorial
11 costs.

12 Q. Would it be true that in the United States
13 you have a great number of different railways operating
14 in the various regions?

15 A. We certainly do.

16 Q. And there would be quite a difference be-
17 tween the different efficiencies of the different railways?

18 A. Well, the question of difference of
19 efficiency among railroads is always a thing which is
20 very hard to judge because no two railways operate under
21 the same circumstances. Any direct comparisons, while
22 they may appear to suggest differences in efficiency,
23 are also subject to many, many qualifications and other
24 possible influences, so that a person would be a very
25 brash one indeed who suggested that on a statistical
26 resolution X railroad was more efficient than Y railroad.
27 I think it is generally accepted that we do have some
28 differences in the efficiency with which certain of our
29 carriers are operated and managed. We have some
30 further differences of importance in their ultimate net



1
2 result arising from differences in financial structure
3 and financial history and so on.

4 Q. And there would be a difference in actual
5 costs?

6 A. Oh, yes, there is no question about that.
7 You have the composition of the traffic, the relative
8 circuitry of the roads and other factors, but there
9 certainly are differences from one railroad to another.

10 Q. Turning now to page 39 it says:

11 "That carriers will, even where forceful
12 competition does not now exist, examine
13 their rate structure carefully to remove
14 any incentive to the growth of competitive
15 service which is not capable of being made
16 more economical than rail service."

17 Had you in mind in that section what we spoke of yester-
18 day as captive traffic?

19 A. It may well be that some of the traffic
20 could be referred to as captive. Some of it may
21 also have another alternative which is about over the
22 threshold. That is to say, there may be a good deal
23 of traffic which is capable of being handled by another
24 method but which, up to this point, has not in fact
25 shifted. What I was referring to is any traffic
26 which carriers now possessed as to which there was any
27 reasonably immediate prospect of the development of
28 other forms of transportation/^{which} might produce a diversion
29 of that traffic at some reasonably early date.

30 Q. Your thought being that it is better for



1
2 the railways to preserve their traffic rather than to
3 try and get it back after it has been lost?

4 A. I think it is better for the railroads
5 and the community of shippers and the public interest,
6 all three. It means, instead of making a shift that
7 is uneconomic and then trying to correct that situation,
8 you avoid that economic shift in the first instance or
9 at least hopefully you do.

10 Q. Just one last point. In your Appendix
11 B you give the United States eastern district boxcar
12 costs with 38 per cent empty return, 10-ton load,
13 January 1, 1950. I presume you have given those
14 particular figures because they represent a volume that
15 is very much subject to motor truck competition?

16 A. Yes, I used the 10-ton load because a
17 20 to 24-ton load is not a usual weight.

18 Q. And you used the eastern district be-
19 cause the truck competition is stronger in the eastern
20 district?

21 A. No. I had no particular reason for
22 doing that. This might equally have been done with
23 the southern district or the western district. I had
24 no special reason for choosing the eastern district.

25 Q. Would you just in general terms, having
26 in mind what the nature of the western district in the
27 United States -- in a general way compare with the
28 Canadian situation? Would you agree that the proposi-
29 tion that perhaps the western district is more com-
30 parable in operating conditions than the eastern one



1
2 would be to the whole Canadian system?

3 A. Well, I would suppose that is broadly
4 true. We have, of course, in our western district, in
5 the very eastern part of it, the densest railway system
6 in the United States, between Chicago and St. Louis.
7 That is on the extreme margin of our western territory
8 where we have industrialization in some portions of our
9 country west, generally in what was known as the western
10 trunk line zone 1. I suppose there may be some
11 correspondence between that and eastern areas of
12 industrialization. As far as the west is concerned,
13 our operations are at least broadly similar to those
14 you get in the prairies. Then we have the mountain
15 problem, of course, further to the west. I think as
16 a broad statement it would be true that within our
17 railroad system the area that you could most confidently
18 make some comparison of with the Canadian condition would
19 be our western classification territory in general.

20 Q. Now, I have not the figures for January 1,
21 1950, and I am sure the situation may have been different
22 at that time, but I do have the cost figures of ICC for
23 the year 1958. It would appear from those cost figures,
24 Dr. Williams, that the operating and fully distributed
25 costs in the western district in the United States are
26 lower than the eastern district?

27 A. I think that was probably true in 1950
28 also. Generally the course of operations ---

29 THE CHAIRMAN: I wonder if you could speak
30 up just a little louder?



1
2 THE WITNESS: Yes, I will try. I think
3 the general course of operations in the United States
4 has been that whereas prior to the Second War it
5 appeared generally speaking that official territory
6 costs were somewhat lower in the south and west, as we
7 moved into the postwar inflationary period the inflation
8 of costs in the east was unfortunately considerably
9 heavier than in the south and west and we moved into
10 the opposite condition. This is partly as a result of
11 the fact that the eastern territory has a shorter
12 average haul and higher cost elements than is true of
13 the other two territories.

14 MR. BRAZIER: Q. Reading from the 1958
15 study I notice that 1000 miles for 10 tons fully dis-
16 tributed costs in the east are \$1.83.3, while in the
17 west for the same amount, the same length of haul, it
18 is \$1.66.3?

19 A. Yes.

20 Q. Now, in respect of that, the situation
21 indicated in your Appendix B, I suggest, would be
22 modified as the loads got heavier?

23 A. What you are referring to is the
24 relationship between the costs and the revenues.

25 Q. And the revenues?

26 A. Yes, of course, this would unquestionably
27 be true. The increase in the carload makes a modest
28 increase in the cost of handling the carload, and,
29 therefore, often produces a lower cost per ton.

30 Q. Mr. Stetchisin has just called to my



1
2 attention that the figure I gave for the west was for
3 gondolas and the true comparison shown for boxcars,
4 \$1.83.3 in the eastern districts and in the western
5 districts, \$1.44.5, which is a fairly large differ-
6 ence?

7 A. Quite a considerable difference.

8 Q. And these cost studies all indicate
9 that as you increase your loads the unit costs drop?

10 A. They do indeed, and fairly sharply, as
11 a matter of fact.

12 Q. Looking at these cost figures, taking
13 25 tons where we have a 10-ton fully distributed cost
14 of \$1.44.5, for the same haul for 25 tons it is just
15 79.7 cents. That is the sort of difference?

16 A. Yes.

17 MR. BRAZIER: Thank you very much.

18 THE CHAIRMAN: Mr. McDonald?

19 MR. McDONALD: I have no questions.

20 THE CHAIRMAN: Mr. Sinclair?

21
22 CROSS-EXAMINATION BY MR. SINCLAIR:

23 Q. Dr. Williams, as I read your paper,
24 as you appear before this Commission you deal with
25 three general matters, passenger, branch lines and
26 freight rate structure and regulation?

27 A. Yes, I think that is a reasonably correct
28 summary.

29 Q. Let me deal with them in that order, if
30 I may. Dealing first with passenger on the Canadian



1
2 Pacific, whom, by the way, I represent. On the
3 Canadian Pacific what proportion of miles of road would
4 you think has no passenger train service?

5 A. I would not have any idea.

6 Q. Well, as a man who studied transportation
7 and the effects of it what would your guess be, your
8 educated guess?

9 A. Well, I do not know. I suppose your
10 situation might well be different than our own in
11 respect of how far you maintain passenger service on
12 line mileage. We have a good many railroads on which
13 we have no passenger service any more and they have
14 fallen into the category of freight only. We have
15 had a wide range, also, of abandonment of branch line
16 services. I cannot say whether the conditions in
17 Canada are at all similar to that. That is a matter
18 of fact which could certainly be ascertained by looking
19 at your figures for mileage on which passenger is
20 maintained and total the miles operated, which I have
21 not done.

22 Q. Well, for instance, the roads in the
23 States that have not any passenger service are outfits
24 like the Rutley. You have no major road comparable
25 to Canadian Pacific or Canadian National in the States?

26 A. Not at all, nor have we any road quite
27 so large in dollar receipts comparable to the Canadian
28 Pacific.

29 Q. Well, the effect of the transition of
30 passenger service is a matter that has to receive some



1
2 weight and has to be looked at in a realistic and
3 orderly way. You would agree with that?

4 A. I certainly would.

5 Q. So that you are under no misapprehension,
6 the statistics and the analysis will show that for
7 Canadian Pacific it has passenger train service on
8 slightly less than 50 per cent of its miles of road.

9 I wanted, then, from there to say to you
10 this: if a witness appeared before this Commission,
11 a Canadian who was thoroughly familiar with the
12 Canadian Pacific service and the area served by Canadian
13 Pacific passenger train service and thoroughly know-
14 ledgeable as to the interplay of alternative trans-
15 portation, if such a witness said to this Commission
16 that he knew of no passenger train service on the
17 Canadian Pacific which was required in the national
18 interest, you would not disagree with him, would you?
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2 A. You said that none was required?

3 Q. Yes.

4 A. I would certainly disagree with him in
5 the present state of affairs.

6 Q. Then, you tell us from your knowledge --
7 by the way, how many times have you been in Canada and
8 travelled over the transcontinental Canadian Pacific?

9 A. I have never been across your country on
10 the railroad or otherwise.

11 Q. Then, you tell this Commission what
12 passenger train service on Canadian Pacific is required
13 in the national interest -- which one?

14 A. That is a question that is impossible for
15 me to answer.

16 Q. Well then, why ---

17 A. I think you can say in general that, given
18 the state of the Canadian Transportation system at
19 present, it seems to me quite obvious that without
20 present rail transportation some manner of service is
21 going to be required; is required not only now but will
22 be required for some period of time. The question I was
23 raising was a question of a long run economy and with
24 particular reference to the Canadian situation. Secondly,
25 the question of whether, given a condition in which
26 railroad passenger service is required, the burden is
27 one which ought to fall upon the freight traffic or
28 somewhere else.

29 Q. Well, I wanted to stay on specifics: we
30 have a specific problem, and dealing with it in the



1
2 abstract is not too helpful, maybe. You said that you
3 would disagree with a Canadian, who knows the Canadian
4 Pacific and the areas it served. You would disagree
5 with him when he says there is no passenger train
6 service on the Canadian Pacific at the present time that
7 is required in the national interest?

8 A. Yes, I would be inclined to disagree with
9 that.

10 Q. You do disagree?

11 A. Yes.

12 Q. Now, my question to you is specific: which
13 passenger train service have you in mind on the Canadian
14 Pacific? I am not interested in any other railway.

15 A. Well, I think that is a question which
16 cannot be answered by a witness who is not intimately
17 familiar with your passenger train schedules and local
18 conditions, but I disagree with the statement you make
19 as purporting to be a statement by one experienced
20 with the service and the territory when he says that no
21 such service is required.

22 Q. In the national interest?

23 A. Because I find it very hard to suppose
24 -- and I am speaking in generalities because I can do
25 nothing else, not knowing your passenger service in
26 detail -- I find it hard to suppose that it is also
27 true that reasonably adequate substitute service is
28 in all cases presently extant and operating which would
29 take over the passenger load which the Canadian Pacific
30 now handles.



1
2 Q. Did you know that the Trans-Canada highway
3 paralleled the Canadian Pacific with the exception of a
4 very small portion?

5 A. I have understood that small portion had
6 been declining for quite a number of years and that the
7 Trans-Canada highway was very nearly complete.

8 Q. And did you know that there were scheduled
9 bus operations between every major Canadian Pacific point?

10 A. No. I would have assumed that to be the
11 case, but I have not made any check on where the bus
12 services go.

13 Q. You and I can agree that the national
14 interest, could we, means that it is a benefit to
15 Canada as a whole -- that is "national interest"?

16 A. Yes, this is true. I think our
17 definitions would be similar.

18 Q. There may be people who think a passenger
19 train service is in the local interest where they would
20 not be able to make a case out for it being in the
21 national interest: would you agree with that?

22 A. I not only would agree with it but,
23 unfortunately, we have had in the United States countless
24 examples of precisely that.

25 Q. In giving your answer, if you did not make
26 an analysis from specific knowledge of alternative
27 service and traffic movements, you could quite easily
28 be misled ...

29 A. Oh, this is ---

30 Q. ... by generality?



1
2 A. This is certainly true.

3 COMMISSIONER MANN: What aspects of the
4 national interest enter into the retention of
5 passenger service, Dr. Williams?

6 THE WITNESS: Well, it may well be that they
7 do not have your present elements of financial interest,
8 as Mr. Sinclair and I have just agreed it may be defined.
9 In our study in the Department of Commerce relating to
10 the problem in the United States passenger service we
11 certainly have the same conditions. It is questionable
12 whether anywhere in the United States there is not
13 reasonably adequate substitute service or, if there does
14 not happen to be, it is certainly questionable whether
15 it cannot be provided by some other means. Yet -- and
16 I gather from what little I have heard of the case --
17 you are also in the position where whatever the national
18 interest may be a considerable part of your population
19 and perhaps some considerable political element does
20 not yet see it in quite that way. This may be a
21 situation such as we dealt with in the Department of
22 Commerce report where it is not expedient nor, as a
23 matter of fact, in our case politically feasible to
24 make a one-shot transition from the present situation
25 into a reliance on other forms of transportation. We
26 might say very well if you want to look at this thing
27 coolly and calmly and coldly, quite obviously the
28 national interest suggests we have not got any places
29 any more, beyond some commutation operations, including
30 some important ones that we have, or possibly some short



1
2 distance operations, where the mass movement is
3 required as between New York and Philadelphia and
4 Wilmington, let us say, where it would not be a more
5 economic thing for the transportation system overall if
6 we took the railroad out of the passenger business and
7 substituted other methods. Unhappily, however, this is
8 not a thing we are prepared to face as a matter of
9 practicality. So, the railroads in our country, and
10 I suspect in Canada also -- and I have seen some
11 evidence to that effect -- are faced with some heavy
12 public resistance. What I was trying to suggest was,
13 that in the face of that kind of problem we cannot,
14 after all, wipe the service out. We have to try to move
15 in the direction we think lies in the national interest,
16 and we may have a period of time during which that
17 movement will have to be absorbed in order to gradually
18 overcome the opposition that exists to it. If we could
19 have it strictly on a cold analysis of the national
20 interest, that would be something else again.

21 MR. SINCLAIR: Q. Dr. Williams, from your
22 study of transportation you would agree that passenger
23 train service was highly profitable in the 20's and in
24 the 40's; correct?

25 A. Well, it was in the United States, and I
26 know no reason why it may not have been here also. As
27 a matter of fact, in 1921, in our general rate level
28 proceeding, our Commission found the passenger service
29 to be more profitable than the freight.

30 Q. You would agree that when passenger train



1
2 service was profitable it assisted and contributed to
3 the total transportation burden and thereby relieved
4 that cost that was carried by freight?

5 A. It did.

6 Q. I suggest to you that in fairness, now
7 that passenger train service is in a deficit position,
8 that until for a reasonable period the railways can
9 phase out of it there is nothing wrong requiring freight
10 to carry that burden?

11 A. Well, I would not be inclined to agree
12 with that. I might accept the proposition that it was
13 a matter of no great consequence if it were true the
14 passenger deficit were a small proportion of the total
15 picture -- a very small proportion -- so that it had no
16 great effect. In our case the deficit for the railroads
17 as a whole has been so great it seems to me to have
18 manifest adverse effects against which, in fairness, now,
19 as compared with what might have been in the early 20's,
20 does not weigh very heavily with me, because I think it
21 has the result our whole freight rate structure has got
22 to be higher than it would be otherwise. This means
23 when we look at the railroad in the face of alternative
24 forms of transportation, our shippers do not make a
25 correct appraisal of its capabilities, and cannot in the
26 face of that kind of situation, and its results in the
27 fact that we use the railroad less for things for which
28 it has a real economic advantage in the freight service
29 than we would if passenger service were not a thing
30 covered by the freight rate structure taken as a whole.



1
2 Q. In view of that answer, may I say this
3 to you: was it brought to your attention that there
4 appeared before this Commission one of the most
5 experienced industrial traffic managers in the country?
6 Mr. George Paul is the name -- did they bring to your
7 attention the transcript of Mr. Paul's testimony?

8 A. No, I have not seen it.

9 Q. Well, Mr. Paul said at page 9937 of
10 volume 54 that he would not object to freight
11 contributing on a temporary basis until this passenger
12 gap is adjusted -- I am paraphrasing him. Now, if a
13 practical traffic --

14 MR. FRAWLEY: That is Swift & Company.

15 MR. SINCLAIR: Q. If a practical traffic
16 manager in Canada would take that view, why would an
17 economist from a foreign country disagree with it?

18 A. Well, I do not think it makes any
19 difference where the economist comes from.

20 Q. You don't?

21 A. I think most economists would argue in
22 principle that one ought not in the interests of
23 securing some reasonable allocation of transportation
24 function between the different forms in the performance
25 of the freight service, allow the level of freight
26 rates in the structure and freight rates of any form of
27 transportation to be cluttered by surpluses inherited
28 from some other service. This results if the amounts
29 are at all significant, and a misallocation of traffic
30 between forms of transportation, and I think an



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2 economist is bound to say that is not a good result.
3 Your traffic manager may feel he is quite willing to
4 put up with this situation and perhaps a great many
5 others feel likewise, but the economist would worry if
6 that traffic manager has some alternatives put to him,
7 notwithstanding what he may have said here, he may, if
8 some other form of transportation which has no deficit
9 to carry, go out and put some of his traffic on that
10 form of transportation on a comparison between its rates
11 and your own rates, or comparing his cost of private
12 transportation with your own rates and reaching a
13 decision which is not necessarily a good economic
14 decision under the circumstances. It is good for him,
15 but it may not make sense for the relationship of the
16 two forms of transportation overall.

17 Q. Well, let us test it this way: you were
18 in a position of regulatory control in the United
19 States during the war; correct?

20 A. We were.

21 Q. You were.

22 A. I was?

23 Q. Yes.

24 A. Oh, you are referring to my personal
25 situation?

26 Q. Yes.

27 A. Yes.

28 Q. Dr. Williams, at that time when
29 passenger traffic was contributing to freight did you
30 recommend that they should be separated and freight



1
2 should stand on its own feet and not have any burden
3 relieved by the passenger?

4 A. No, I did not recommend any such thing.
5 I was busy doing other things than worrying about
6 transportation economics at the time.

7 THE CHAIRMAN: Was that a temporary affair?

8 THE WITNESS: Quite temporary, but it is an
9 interesting phenomena that the United States railroads'
10 increase in passenger revenues proportionately were
11 far greater than the increase in freight revenues, and ,
12 as a matter of fact, for several years during the war
13 period passenger traffic appeared to make a net revenue
14 contribution greater than our freight service, if I
15 recollect the facts correctly. We did not have before
16 us any issue at the time; nobody was proposing to
17 reduce passenger fares, and I suppose even if they had
18 government policy would have intervened on another
19 ground, namely, that with our railroad passenger
20 service as overloaded as it was it was not wise to
21 extend any additional stimulants to its further
22 intensification of use. But if this were a situation
23 occurring at other times, over a longer period, and
24 had occasionned comment by me, I would take the same
25 position with respect to passenger service as I would
26 with respect of freight service. I see no more reason
27 why the passenger service ought to subsidize the freight
28 than the opposite case.

29 Q. But in point of fact, in the United
30 States and in Canada it did do so?



1
2 A. Yes, during the war for a couple of years,
3 and it did in our case in the transition period
4 immediately after the first war.

5 Q. And throughout the 20's?

6 A. No, not throughout the 20's; I do not
7 believe so. The passenger situation went through a
8 gradual decline; it was a gradual decline, but it began
9 to feel the impact of a number of competitive factors
10 during the 20's.

11 Q. It did not become unprofitable in the
12 United States until the 30's?

13 A. That is right; not unprofitable.

14 Q. And therefore it was contributing over and
15 above its variable cost to carrying the burden?

16 A. Yes, I agree; as compared to what it was
17 doing in the early 20's, it was becoming a little less
18 capable as the decade went on.

19 Q. Let me put this proposition to you: if it
20 was policy for a railroad, to phase out of passenger
21 business except where it could meet its avoidable costs,
22 and that in a transition period of ten years that freight
23 should, as it has in the past, take whatever disabilities
24 there were involved, as an economist you could not
25 really disagree with that?

26 A. You say "disabilities"?

27 Q. Yes.

28 A. What do you mean by "disabilities"?

29 Q. The sharing with railway management,
30 railway owners, the losses from passengers -- that is



1
2 an orderly way of making a transition, is it not?

3 A. Well, let me see if I understand you.
4 You talk about phasing it out over a period of years
5 except in the cases where it covers its variable costs?

6 Q. Avoidable costs?

7 A. Yes, and you say that would be a reasonable
8 approach to the problem?

9 Q. Yes.

10 A. Well, I think essentially that is what
11 I have suggested elsewhere and would advocate.

12 Q. And during this phasing out period the
13 disabilities of passenger would continue, as they have
14 in recent years, to be shared by railway owners and
15 freight?

16 A. Well, I think the proposition that one
17 ought to undertake a phasing out, that it has to be
18 a gradual thing and possibly something like ten years
19 is a reasonable period. This does not leave me happy
20 with the notion that if the figure is of any substance
21 it is entirely wise to accomplish the phasing out by
22 the sharing that you suggest. We have, I am sure, in
23 the United States now for better than a decade done a
24 great disservice to our railroads by following exactly
25 this process. I am sure their competitive position
26 today would be far better if they had not been carrying
27 these passenger service deficits over that period of
28 time, and I am distressed by the length of time /

29 of this course and its resulting effect upon the
30 position of the railroads competitively in the freight



1
2 service. So that, I am not sure I would agree it is
3 wise and, in fact, I have suggested that perhaps the
4 time has come to pick that bill up elsewhere.

5 Q. Well, I will deal with picking up the bill
6 in a minute.

7 --- A short recess --
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2 THE CHAIRMAN: Order, please.

3 MR. SINCLAIR: Q. Dr. Williams, one of
4 the problems of unprofitable passenger train service is
5 the question of labour intensity; correct?

6 A. Well, I would not put it quite the same
7 way, but I think I would come out to the same end.
8 It has seemed to me, at least in our own railroads,
9 that the problem is one that we would describe as
10 a problem of load factors ---

11 Q. Would you speak up, please, Dr. Williams?

12 A. We have in our passenger service a load
13 factor that is probably something of the order of 25
14 per cent, as a general rule, and to operate a passenger
15 service on a load factor, such as that, is impossible
16 on a sustaining basis.

17 On the other hand, the factor that you mention
18 is certainly a major contributor to that cost; that is
19 to say, years ago we were capable of operating com-
20 paratively short trains and sometimes on relatively
21 light load factors, in view of the fact that labour
22 cost, which is one of the largest elements of the ser-
23 vice, bore a different relationship to other elements
24 of cost and to the level of fares than is the case
25 at the present time.

26 Q. Did you know, Dr. Williams, that there
27 is a marked difference between the approach of
28 Canadian railroads and their rights under collective
29 agreement as to how many employees they have to have
30 on a passenger train compared to what exists in the



1
2 United States?

3 A. Well, we have some variations ourselves,
4 but I am not familiar with what the Canadian situation
5 is.

6 Q. Well, did you know there is a type of
7 passenger train in Canada that can be operated with a
8 train crew of three running in multiple?

9 A. No, I did not. We have similar
10 situations, however, and we have some situations in
11 which we can operate self-propelled equipment in multiple
12 units if they do not exceed a limited length, with
13 crews as small as two.

14 Q. This is only in electric interurban
15 service, I suggest to you?

16 A. Well, it has also come to apply
17 in the use of Budd cars, for example.

18 Q. It has?

19 A. Yes.

20 Q. Where?

21 A. I has been true on the Baltimore & Ohio
22 railroad since they used that equipment between
23 Washington and Baltimore, and likewise in their Pitts-
24 burgh suburban service we had a similar arrangement ---

25 Q. Would you mind telling me what agree-
26 ment this is on? The Baltimore and Ohio? When was
27 this agreement negotiated?

28 A. I would not be able to pin it down
29 precisely, but it corresponded with their introduction
30 of that equipment.



1
2 Q. Budd cars in multiple with a crew of
3 how many?

4 A. Three.

5 Q. What are the three crew members?

6 A. As I recall, they have an engineer, a
7 conductor, and a third employee who is known as a train
8 porter. I do not know what organization he belongs to.

9 Q. Then you say that they have that restric-
10 ted crew on the B&O?

11 A. That is right.

12 Q. Is that the only railroad in the United
13 States?

14 A. The Boston & Albany had it and had a
15 court fight about it in a case of use of Budd cars
16 between Boston and Springfield. I am not sure whether
17 that situation still prevails.

18 Q. And in regard to the general application
19 of Budd cars in the United States, the labour agreements
20 require the designation of a fireman and in lots
21 of states two trainmen or a minimum crew of five?

22 A. That is quite true.

23 Q. This has a material effect on profitability?

24 A. It would have a very considerable effect,
25 yes.

26 Q. Do you know that the Canadian Pacific,
27 since the introduction of Budd cars, has had the right
28 to operate in multiple with restricted crew?

29 A. No, I did not know that.

30 Q. Now, Dr. Williams, in regard to this



1
2 matter of passenger service, if a locality desires to
3 maintain a losing passenger service you would agree that
4 the deficit should be the responsibility of the locality
5 which pressed for the maintenance of the passenger
6 train service?

7 A. Yes, I would think so, if you can put
8 it down to a local condition.

9 Q. Well, it would be entirely wrong to have
10 an overall subsidy in such circumstances because the
11 impact of the burden is not directed to the people who
12 are requesting its maintenance?

13 A. Yes, there is certain difficulty in that
14 respect. Where you deal with long-range passenger
15 service, however, it is perhaps a little difficult to
16 identify what local interests are involved.

17 Q. Let me ---

18 A. I have taken the position, though, that
19 in, for example, such a matter as our commutation
20 problem, which can be defined as a local problem, and
21 the localities concerned can be ascertained, that this
22 is basically a local problem.

23 Q. Well, Dr. Williams, difficulties of
24 definition never stopped an economist before, did
25 they?

26 A. Oh, they very often do.

27 Q. Well, they should not stop you where you
28 can take a branch line and say, now, here is a situation
29 where a deficit on this train operation is definable,
30 and here is the service being offered. Now, this is a



1
2 local situation; there is no question about that. The
3 service is maintained for the people on the branch
4 line?

5 A. Yes, this is. There, I think you can
6 define that as a local situation in that case.

7 Q. All right. Let me give you the example
8 of intercity runs, where the service, passenger train
9 service, is set up and is serving intercity. Here
10 we have definable local situations? Correct?

11 A. Well, it is conceivable you might have,
12 but I am not certain that you always would. Intercity
13 segments are not infrequently parts of a larger system
14 and more or less integral with it, so I think you would
15 probably have, in many instances, a combination of local
16 and somewhat broader use of such a service.

17 Q. That only comes down to a question of
18 defining how you run the trains; does it not?

19 A. Not at all. I think it is a question of
20 how the people use trains, not how they are operated.

21 Q. Let me give you an example. There is
22 a train operated between two intercities; it stops for
23 one group; it stops for four or five hours and then
24 picks up again and goes to another intercity. That
25 may be looked upon as a through service, but it is
26 really a commuter intercity.

27 A. It is hardly a through service, obviously,
28 if it is arranged as a schedule in that fashion. It
29 would seldom, perhaps, be useful unless the interval
30 of time allowed people to transact business in the place



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2 in question and make use of it in that way as a through
3 service.

4 Q. What you are saying is it is a question
5 of analysis to determine whether it is local or ---

6 A. If you want to undertake to ascertain
7 whether it is to be described as a local responsibility
8 or a broader responsibility, I think that is so. You
9 have to look at it in detail.

10 Q. Yes. Now, Dr. Williams, take a given
11 railway that was built primarily for the movement of
12 freight and freight is the major volume of traffic.
13 Would you agree that the appropriate cost of passenger
14 service on the railway should be developed on an
15 avoidable cost basis?

16 A. If we use the term the same, I would
17 agree with you, yes.

18 Q. Well, let me see if we do. When I use
19 the term "avoidable cost" I mean that it is inappropriate
20 to ascribe to the service being costed a proportion of
21 constant expenses?

22 A. Well, I did not use it quite in that
23 sense, although it may come to the same thing. I would
24 define it as a question of comparing the costs of
25 operating the present service with the passenger
26 business in the picture, and the cost that you could
27 anticipate would prevail when the passenger service had
28 been eliminated.

29 Q. Another way of putting it is that
30 passenger train service should be costed on economic



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2 incremental costs? Correct?

3 A. Essentially so, except since our question
4 is whether the service ought to be abandoned or not
5 we are looking at the downward study rather than the up-
6 ward.

7 Q. That is right, that is right.

8 Now, Dr. Williams, you have stated in your
9 paper and you were cross-examined in connection with this
10 by one of my friends, Mr. Cumming. You stated that
11 major lines falling in the category of national policy
12 lines had become integrated into the systems in such a
13 way as, doubtless, to prohibit their abandonment.
14 Speaking of Canada, you said that on page 34.

15 A. Yes.

16 Q. And specifically with the Canadian
17 Pacific, which major national policy line did you have
18 in mind?

19 A. I am not sure that I had any in mind in
20 the case of the Canadian Pacific. I think, however,
21 that some lines of the National certainly fall into that
22 description, but the term "national policy lines" is
23 a thing which has been referred to in an earlier Royal
24 Commission in which they have, as a matter of fact, an
25 estimate of the mileage that fell in that category.
26 But such understanding as I have of the history of the
27 Canadian railroads does not leave me in possession of
28 any idea that there are national policy lines within
29 that meaning in the Canadian Pacific System.

30 Q. Dr. Williams, I have a note here I will



1
2 read to you; I think it is the quickest way to put it,
3 and then maybe you can please tell the Commission as
4 to whether you would agree with this:

5 "A notable necessity is greater freedom
6 to abandon unprofitable light traffic
7 mileage and, where necessary, to sub-
8 stitute highway service as a part of the
9 railroad system. Where such lines cannot
10 carry themselves financially, the interests
11 of localities along the line and of rail-
12 way employees must give way to the larger
13 national interest on a sound basic
14 rail transport network. The luxury of
15 branches which sap the net revenues of
16 vital railway systems can no longer be
17 sustained. If local interests insist
18 upon the retention of rail service in
19 such circumstances, the burden of losses
20 should rightly fall upon them."

21 Would you agree with that?

22 A. I would agree with it with a qualifi-
23 cation. I think that in order to come to that kind
24 of a conclusion it is first necessary to show that it
25 is possible to perform the service in question by an
26 alternative form on more favourable terms than it is
27 possible to perform it by the existing rail grants.

28 THE CHAIRMAN: Who said that?

29 MR. SINCLAIR: Dr. Williams.

30 MR. FRAWLEY: The Chairman asked a question.



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MR. SINCLAIR: I answered it.

THE CHAIRMAN: When?

MR. SINCLAIR: When? 1959.

COMMISSIONER MANN: Is that by him, or is it from a collaborator?

MR. SINCLAIR: That question was put to him on a number of occasions and he, quite frankly, said his co-author said that.

THE WITNESS: We had a little discussion on that some years back.

I do not need to see it, Mr. Sinclair. That is quite all right.

MR. SINCLAIR: Q. At the time you wrote this you did not put any qualification on it at all?

A. No, sir, I think I did not, but I think it is a reasonable interpretation if such a thing depends upon an assumption that you can perform the transportation service more economically in some other way. Otherwise, the general proposition does not hold water very well.

Q. But you would not put any qualification on the last sentence:

"If local interests insist upon the retention of rail service, in such circumstances . . ."

That is, the deficit operation ---

". . . the burden of losses should rightly fall upon them."

A. No, I would subscribe to that statement.



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2 Q. Now, at page 35 of your paper, Dr.
3 Williams, before this Commission, you point out that
4 subsidies on uneconomic branch lines provide great
5 difficulties in regard to the fixing of them and the
6 administrating of them. Then, you go on to state
7 that,

8 "A concerted effort to abandon mileage
9 would be far more fruitful for the
10 nation, and to the extent accomplished,
11 at least as helpful to the railways."

12 Now, did you have in mind that one of the difficulties
13 would be that once a subsidy was given, if it was, that
14 rather than making the people requiring the service
15 to be continued to pay for it, that the tendency
16 would be that you would be unable to get rid of the
17 uneconomic line?

18 A. I had that very much in mind. It seemed
19 to me that the forces of resistance to abandonment of
20 uneconomic lines certainly, in our country, are
21 always far too great, and I would not like to see them
22 enhanced by such a situation as that. A subsidy for
23 this kind of a purpose, where the ultimate best
24 economic result might well be abandonment, has
25 exactly that trouble, that it might be one new
26 obstacle to effecting an economic adjustment that is
27 desirable.

28 Q. On page 5 -- and I am trying to deal
29 with the branch line material all in one place, Dr.
30 Williams-- you state on page 5 of your paper that there



1
2 is from 60,000 to 70,000 miles of line now judged by
3 students of the railway problem to be excess. I take
4 it that by "students" you do not mean that students
5 always agree?

6 A. No, not at all, Mr. Sinclair. I think
7 there would be fairly general agreement that we had
8 some excess mileage, but certainly there would not
9 be agreement among all that the figure is of this
10 order.

11 THE CHAIRMAN: They are like lawyers?

12 MR. SINCLAIR: Well, of course, sir, lawyers
13 -- if I may draw this distinction, that lawyers, like other
14 professional men, disagree sometimes because their
15 clients do, and that professional men are always in
16 that position.

17 THE CHAIRMAN: Well, you and Mr. Frawley
18 disagree on principle.

19 MR. SINCLAIR: Well, Mr. Frawley and I dis-
20 agree, as I said the other day, because I look upon
21 myself as an economic realist, and I am sure he knows
22 he is an economic royalist, and that is where the
23 trouble arises.

24 Q. Dr. Williams, when you use the word
25 "excess", do you mean excess in the sense of redundant
26 or excess in the sense of capacity?

27 A. More in the sense of redundant than in
28 the sense of capacity, but including, in our case, a
29 great deal of secondary main and even important main
30 lines where we have substantial duplication between



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2 competitive railway systems.

3 Q. Dr. Williams, you would agree with me
4 that before a person can say there is duplication of
5 rail transport, you have to know a great deal about
6 the traffic moving; the topography; the established
7 patterns ---

8 A. Quite so.

9 Q. --- the linkage that the railway serves,
10 and that you cannot usefully get that kind of an
11 appraisal by merely looking at a map?

12 A. Oh, I would fully agree with that.

13 Q. And I think, Dr. Williams, we can agree
14 on this, that the true test of whether a branch line is
15 redundant is the alternative common carrier cost of
16 moving the traffic that may be moving over the branch
17 lines?

18 COMMISSIONER MANN: Why do you restrict it
19 to common carrier?

20 MR. SINCLAIR: Well, Commissioner Mann, I was
21 trying to see whether the witness would agree with me.
22 I have reasons which, if he does not agree with me,
23 I will put to him.

24 Q. But, in view of Commissioner Mann's
25 statement, let me take it in the general now and ask you
26 whether you would agree that the test is alternative
27 transportation costs?

28 A. If one is looking at the question of the
29 public interest, I would say yes, that is true.

30 Q. And, in looking ---



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A. That is to say, if we have a transportation test that manifestly has got to be performed and which has been performed in the past by branch line railroad, then it seems to me that our question running to the idea of whether we ought to effect a substitution clearly depends upon whether that substitution can be effected at an equivalent or less cost.



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Q. An equivalent or?

A. Or less cost.

Q. If it is even then there is nothing to be gained economically, is that what you are saying?

A. There is not at the minute, certainly.

Q. But if it was even and was capital already committed in one place it would be wise not to prohibit by abandonment that situation. Is that what you had in mind?

A. You say not to prohibit a substitution?

Q. No, it would be wise not to prohibit the continuation.

A. Oh yes, I think that is certainly true. Of course, in a given situation much might depend upon the state of the capital plant and your cost figures would reflect what would be needful over the term to make up any deficiencies in maintenance that were becoming urgently in need of continuation and so on. If the costs recognized were necessary to carry that capital investment I would certainly as a general rule, unless we found some advantage in the alternative form, that is a lower cost by the alternative form, recommend continuing the present.

Q. And when you are looking at the alternative transportation cost we can agree that you must take in all costs. For instance, time costs of labour, investment costs, it would have to be done on a true analysis basis.

A. Oh, quite, yes.



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2 Q. And if you were going to deal with
3 private carriage one would have to be careful that it
4 did have all true costs assigned to the transportation
5 media that was being looked at.

6 A. Right.

7 Q. There is no such thing in economics as
8 free time? It is just like a free meal?

9 A. If there is I have not heard about it.

10 Q. That question was for the benefit of Mr.
11 Frawley because if there was free time in economics I
12 am sure he could use it. Now, I think we can turn to
13 considering the other aspect of your paper. Before I
14 do that there are just a few points to perhaps clear
15 up a few things before we get to discussing the matter
16 of principle. Your appendix "B" which has been spoken
17 to by Mr. Brazier in his cross-examination of you, I
18 just want to carry on a little bit further from that.
19 This is the basis of where you use this appendix to
20 show that on mileage scales there is non-compensatory
21 rates, that is the purpose of it?

22 A. Well, I think the purpose of it was a
23 little broader than that. The purpose was to show that
24 when you consider the classification rating plus
25 a class rate which not infrequently happens that on the
26 lower classes and in certain lengths of haul with
27 customary shapes of rate scale you do run into some
28 non-compensatory situations.

29 Q. At page 16 you said the purpose of this
30 was to show exactly that, to show on mileage scales



1
2 traditionally developed, as you put it, that on the
3 lower class and on the longer hauls it resulted in
4 non-compensatory rates.

5 A. Yes.

6 Q. Under the United States classification,
7 Dr. Williams, in the lower class, the lower columns,
8 is there not a higher minimum?

9 A. You are referring to minimum weight or
10 minimum charge?

11 Q. Minimum weight.

12 A. Oh yes, ordinarily that is true. The
13 lower class normally are used only for carload traffic
14 and it is very frequently the case that the minimum
15 weights are higher in the lower than in the higher class.

16 Q. I am looking at appendix "B" and you are
17 dealing with the carload cost and you are dealing with
18 class 50 and class 30 where you seem to fall into
19 trouble, class 30 in particular, the longer distances.
20 Now, what is a minimum weight under the United States
21 classification for column 30 traffic.

22 A. On column 30 it would not be a uniform
23 thing. We would have minimum weights, generally
24 speaking, probably higher than 20,000 pounds on a class
25 30.

26 Q. Have you checked the Canadian
27 classification?

28 A. No, I have not.

29 Q. Well, generally speaking, and rather
30 than looking it up and giving it to you -- if I am



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2 misstate it I am sure the traffic adviser of the
3 Commission will correct it -- generally speaking with
4 one or two exceptions which are around 30 the minimum
5 is 36.

6 A. Yes.

7 Q. And on that basis this would have a
8 material effect on the impact of your column.

9 A. Of course it would. That is to say,
10 if you substitute 36,000 pounds you get quite obviously
11 a different result on a class 30.

12 Q. And, therefore, when looking at mileage
13 scales it is important that we move in the columns
14 from column 100 downwards to consider the minimum
15 weights.

16 A. Quite so.

17 Q. And it is also --

18 A. I think it is obvious from the
19 points Mr. Brazier brought forth as to the relationship
20 between costs at differing minimum weights.

21 Q. Under the Canadian classification I
22 suggest to you that your 10 ton load is not appropriate
23 except in column 100.

24 A. Well, this would suggest that a different
25 kind of analysis perhaps ought to be made in order to
26 show the relationship with a cost scale. I think that
27 is probably quite true.

28 Q. And I also suggest to you, Dr. Williams,
29 that this consideration of cost and mileage scale at
30 the longer distances is a matter of considering the



1
2 paper on the longer distances. I would also suggest
3 to you that in the classification in Canada this has
4 been gone into to protect the very thing that you are
5 afraid of and that is non-compensatory rates from the
6 longer hauls.

7 A. This may well be true. There is also,
8 of course, the point on which I think I had something
9 to say at an earlier proceeding here, that there is
10 some question whether the straight line cost function
11 which is asked by the I.C.C. is a correct
12 representation of the behaviour of line haul costs
13 with operations in distances.

14 Q. Of course, traffic people are quite
15 competent and capable of research and checking out
16 these scales and objecting to them quite easily in
17 this country if they find them non-compensatory.

18 A. I would assume that they ought to be.

19 Q. Well, you are not suggesting that from
20 your knowledge of the Canadian Pacific traffic and
21 costing sections that they are not competent?

22 A. No, I would not suggest that at all.

23 Q. And it is to their own self interest
24 to make sure that their mileage scales are operating
25 properly in regard to compensatory rates.

26 A. That is what I have suggested at several
27 points here, I think.

28 Q. Now, just another point; on the next
29 page you say:

30 "Further complications will appear where, as



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2 in Canada the network of improved highways
3 is not yet comprehensive."

4 I suggest to you that this is a misconception
5 of a person who is not knowledgeable of Canadian
6 situations and its network of highways. This might
7 have been right five

8 THE CHAIRMAN: On what page?

9 MR. SINCLAIR: Page 17. This may have been
10 right five or even as short a period as maybe ten years
11 ago but it is not a situation that exists in Canada
12 today. Let me give you these examples.

13 A. Well, of course, I cannot say what the
14 highways conditions in Canada may be but I would point
15 out that there is involved in this question of the
16 effectiveness of motor carrier competition not of
17 the expense of highways merely but their condition,
18 the traffic conditions that exist over them, the weight
19 limits that may prevail and quite a variety of
20 circumstances. Therefore, one must take a pretty
21 careful look at what it is capable of for a highway
22 operator to perform under the highway conditions on
23 that basis. We have had quite considerable differences
24 in unit costing truck operations in different parts
25 of the United States attributable partly, and sometimes
26 very largely, to differences in highway conditions.
27 Most of these situations are now being mitigated by
28 highway improvement. In the past the impact of truck
29 competition in some sections of the country has been
30 a little less onerous than in others. We have had



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2 differences in the cost of tractor trailer carrier in
3 highway operations ranging from 35¢ in some places to
4 as high as 56 or 57 cents in others.

5 Q. This is quite often a question of
6 density over the highway where the unit cost on low
7 density are higher than those on the railway? Correct?

8 A. I do not quite follow that since traffic
9 at least in our economy is under no obligation to bear
10 any more of the costs of the highways except to pay
11 their excise tax, his consumption of gasoline and
12 registration of the vehicle.

13 Q. You have no weight distance tax?

14 A. I think we have in four states at the
15 present time. On the other hand, the density of
16 traffic does have an effect on him in the sense that
17 with conditions approximating adjusting your heavy
18 usage on a highway facility he will find his crews
19 on overtime and he runs into added expense. He also
20 has an additional factor in regard to his vehicle.

21 Q. That affects his unit cost per ton.

22 A. Well, the permissable load --

23 Q. For the size for the permissable load.

24 A. You mean the size limits themselves?

25 Q. Yes?

26 A. Yes, he has a problem. This is true in
27 most states in the United States and is a rather
28 interesting problem in some states of adjusting the
29 cubic capacities that he can get as the result of
30 size limits to the weight limit that he is permitted
under the law to handle over the highway and try to



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2 exercise this under these limits.

3 Q. I am suggesting and I think you will agree
4 that the unit cost per ton mile on a movement by
5 highway has marked differences where the vehicle has
6 a load weight limit of five tons as compared to ten
7 tons.

8 A. Oh, yes.

9 Q. This is one of the great density factor
10 problems in trucking.

11 A. Yes. I did not quite understand what
12 you were pointing out. This is certainly true. The
13 load of the factor is perhaps the most strategic single
14 factor that affects unit costs on a truck operator
15 apart from the question of whether he has a balanced
16 load in both directions which is closely related.

17 Q. Now, there was one other question that I
18 wished to put to you and this was a matter just to clean
19 up. There has been some discussion here and it was
20 continued with Mr. Brazier asking some questions
21 yesterday concerning the position of the value of the
22 commodity in classification. I am going to read from
23 the 2300 series class rate investigation in the United
24 States on this matter. I am instructed that this is
25 a proper quotation even though I am taking it from a
26 text. I will read this to you:

27 "Development of competitive transportation
28 agencies with flexible service, and a
29 disregard of the element of value by the
30 competitive agencies in the determination



1
2 of their charges, have reacted upon the
3 policies of the classification committees
4 with the result that generally weight
5 density is now the dominant consideration
6 in determining classification ratings. This
7 does not mean that value and other principles
8 of classification are completely eliminated
9 from consideration; but it does mean that
10 value of an article does not control the
11 rating to the extent it formerly did."

12 That is a quotation from class rate
13 investigation, 1939, 262 I.C.C. 447 at 482. You agree
14 that is a fact?

15 A. I think that is a perfectly correct
16 statement but a full understanding of its impact
17 perhaps require two comments. The first one is that
18 what is referred to is a shift of emphasis and
19 admittedly it has been quite a considerable shift of
20 emphasis. There is no doubt about that, unquestionably
21 the weight density has played an important part.
22 Secondly, of course, it has played a part as far as
23 the reports of the classifications have actually come
24 forward and have been considered by the classification
25 committees, that is the practice, looking forward to
26 representation as we go through that process from day
27 to day.

28 Q. Did you know that there had been a
29 complete revision of the classification in recent
30 years in Canada?



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2 A. No, we had one in the United States but
3 I was not aware that you had one in Canada. We had
4 to do so when we had our 28300 proceeding.

5 Q. You know that these classification
6 hearings, classification considerations, that shippers
7 come before the committee, express their views. They
8 present their problems and they deal with the matter
9 in a practical way of moving traffic and looking at
10 it as to reclassification on the determination of
11 moving traffic. That is the motivation of classification?

12 A. Quite so.

13 Q. On page 19 there is a point that struck
14 me. You are dealing with the manufactured tobacco
15 products and on page 19 you say, speaking of
16 manufactured tobacco products:

17 "The greatest part of a traffic in this
18 commodity had, however, already been lost by
19 1946."

20 Have you considered the situation of
21 manufactured tobacco products on the Canadian railways
22 as compared with that unfortunate situation to the
23 United States railroads?



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2 A. No, I don't know what your experience
3 with it has been.

4 Q. Well, I suggest to you that if you
5 check it out that you would find manufactured tobacco
6 products are covered by agreed charges with very high
7 proportions for the railways. Would you agree with
8 me this is an example where the railways by the use of
9 agreed charges are able to show their economic ad-
10 vantages?

11 A. Yes, I think so. If your suggestion
12 is similar to ours, in many of these proceedings in
13 which the railways and trucks were involved in contro-
14 versy about these tobacco rates, it was quite apparent
15 from the cost evidence put in that the railways were
16 by far the more economical method of moving this
17 traffic, and I think, therefore, that a device that
18 would permit them to retain it would be an excellent
19 situation, not only for the railways but generally for
20 the problem of allocation among forms of transport.

21 Q. Dr. Williams, before I deal with the
22 principle of your brief, I have two or three small
23 points in your text. Page 24:

24 "... the railroads have not yet seen
25 fit to suggest a comprehensive revision of
26 rate structure which would give expression
27 to the cost characteristics of their own
28 industry and to the nature of the competi-
29 tion which they face."

30 I suggest to you, Dr. Williams, that in Canada through



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2 the use of competitive rates so marked, which is
3 different than the United States situation -- that
4 these are tariffs marked competitive and do not apply
5 to intermediate --- through the use of agreed charges;
6 through the use of loading incentive rates, that the
7 railways in Canada and the regulatory climate has
8 enabled the railways to do what you are suggesting
9 here: would you agree?

10 A. I would agree to the extent it seems
11 to me quite obvious the Canadian railroads have gone
12 further than our own and that the agreed charge
13 device has been very helpful to them in that connec-
14 tion.

15 Q. Dr. Williams, arising out of that would
16 you agree that obstacles to the expansion of one form
17 of transportation into others must be removed if an
18 effective integration is to be secured -- and so we
19 won't go through this again, I am using your words.

20 A. Yes, I recall that proposition.

21 Q. You have not changed your mind on that
22 since 1959?

23 A. No, I have not changed my mind. I was
24 under the impression, though, that your railways in
25 Canada had already greater freedom than our own
26 carriers in that respect.

27 Q. I was going to ask you if you knew that
28 Canadian Pacific had introduced a pilot operation
29 which has been expanded to some degree of a fully
30 integrated truck-rail economic shift in the Province



1
2 of British Columbia?

3 A. I have heard something about it lately,
4 but I am not familiar with it.

5 Q. Now, on page 25 you are suggesting that
6 there is an excess of rail capacity in comparison with
7 present and prospective traffic. In view of the
8 extractive industry importance in the Canadian economy,
9 have you considered the impact on, for instance, Canadian
10 Pacific of the development of potash and sulphur and
11 the by-products of the new petroleum natural gas
12 industry of western Canada on prospective tonnage
13 on the railways?

14 A. If by "considering it" you mean measuring
15 it, I have not; but I have been aware there was much
16 development of that kind going on, which should certainly
17 produce productive tonnage for the railways. It should
18 be part of a process by which such excess capacity as
19 there may be is tending to be reduced.

20 Q. So, you are not trying to say to this
21 Commission you are making a judgment or an analysis
22 of potential traffic in respect to Canadian Pacific
23 and saying ---

24 THE CHAIRMAN: I think Dr. Williams does not
25 pretend to be familiar with the systems of Canada.
26 Is that right?

27 THE WITNESS: That is correct, yes.

28 MR. SINCLAIR: Q. Now, Dr. Williams, I wish
29 to deal with what I would call the philosophy of this
30 paper in regard to the rate structure and pricing, and



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2 I would ask you this -- by the way, so that I will know
3 how to direct my questions, are you an economist of the
4 so-called Welfare school, or are you not?

5 A. Well, not particularly. I studied some
6 of the Welfare literature, but I certainly don't
7 describe myself in those terms.

8 Q. In considering transportation, under the
9 free enterprise system would you agree that reasonable
10 market controls are superior to regulation; correct?

11 A. Yes.

12 Q. And basic to your theory of pricing is
13 that no rate will be maintained below its variable cost;
14 correct?

15 A. That is quite true.

16 Q. And also basic is that competitive rates
17 should not be used as a base upon which to construct
18 non-competitive rates, or to be used as a test of the
19 reasonableness of rates where the competition is not
20 present?

21 A. Well, that last, not quite. What I have
22 suggested is that certainly our principles in testing
23 the reasonableness of rates have made it the case before
24 our Commission that competitively compelled rates, if
25 used in such comparisons, carry little if any persuasive
26 powers and generally are not held to be relevant to
27 a comparison of that kind.

28 Q. You would not argue for any other rule?

29 A. That is what I said.

30 Q. And that they should not be used as a



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2 base upon which to build other rates -- that is the
3 other part of the basic proposition -- they should not
4 be used to test reasonableness where that competition
5 is not present, and they should not be used as a base
6 upon which to build other rates?

7 A. I don't know I could subscribe to it
8 in such general terms. I suspect there may be excep-
9 tions to that case. I am not sure I fully understand
10 the sweep of your question.

11 Q. Let me give you what I have in mind: if
12 we are going to take a situation in which they are going
13 to consider the fixing of maximum rates by principle or
14 in any other way, that a base rate upon which a mark-up
15 was to be used should not be a competitive rate?

16 A. If I understand you, you are referring
17 to the process by which one should determine the level
18 of the maximum rates?

19 Q. Yes.

20 A. I find it a rather unsatisfactory thing
21 to try to make a mark-up on a competitive rate for
22 that purpose.

23 Q. Dr. Williams, the next point that I wish
24 to put to you is this, that differential pricing by
25 railways within the limits of variable cost as a floor,
26 and the cost of an alternative mode of transportation
27 as a ceiling, can give you no cause for complaint as
28 resulting in misallocation of transportation resources?

29 A. Well, I have never felt there was very
30 much danger of it in a situation of that kind.



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2 Q. I suggest to you that measuring value of
3 service by the cost of an alternative means of trans-
4 portation is a reasonable method of measurement?

5 A. Well, I wouldn't say that it is a reason-
6 able method of measurement. It seems to me that it is
7 the measure of the value of the service when we deal
8 with a competitive situation where we have alternatives.
9 I never thought it was a very reasonable measure of the
10 value of railway service back in the days when our
11 Southern Pacific Company charged local rates in
12 California at 15 cents a ton mile on the grounds that
13 was the cost of wagoning over the road.

14 Q. Well, if you are going to follow the
15 allocation of transportation resources in a true
16 economic way, that is exactly where you get, isn't it --
17 because, if the only alternative is the wagon ---

18 A. But this is one of the reasons why we
19 introduced regulation of the railways in the first
20 instance.

21 Q. This is maybe why you introduced them in
22 the United States, you mean?

23 A. I am speaking about the United States,
24 yes.

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26 ---Luncheon adjournment.
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2 --- On resuming at 2 p.m.

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4 THE CHAIRMAN: Order, please.

5 MR. SINCLAIR: Q. Dr. Williams, do you
6 advocate minimum rate control of trucking?

7 A. I have taken the position with respect
8 to that that in view of the fact that we have had it in
9 the United States since 1936 and operated under it for
10 some considerable while we would have ourselves another
11 one of these problems of transition in getting out of it.
12 In the long run, I am inclined to think that it is neither
13 necessary nor perhaps desirable.

14 Q. Well, do you advocate maximum rate control
15 for trucks?

16 A. I do not know of any reasons that would
17 compel it, except in such circumstances as might occur,
18 and we have a few of them, where trucking operations
19 would be the sole transportation available at some points
20 or in some areas, and where, likewise, we, under our
21 present law, of course, have what amounts to a franchise
22 vested in one or perhaps a quite limited number of
23 carriers.

24 Q. As long as you have franchises or limited
25 entry, let us put it that way -- as long as you have
26 limited entry, you are saying that you would require
27 maximum rate control?

28 A. Unless it be true that there is effective
29 competition between motor carriers and another form of
30 transportation, such as rail.



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2 Q. Well, Dr. Williams, how would you
3 calculate the maximum rate for a truck operation that
4 was to be applied to more than one operation?

5 A. You mean a rate that would apply between
6 two points, but would be applicable over several
7 competing truck lines? Is that the meaning of your
8 question?

9 Q. That, plus the fact that it would apply
10 not only between two points, but across the country, or
11 within an area that is of significant degree -- let
12 us say, for half the country? How would you arrive at
13 that?

14 A. Well, I do not know that the occasion
15 would arise for us to deal with such a thing on a very
16 broad scale. If we were compelled to fix maximum rates,
17 and we have very seldom had to do so, in the case of
18 trucks, I think we would there want to look at a
19 trucking situation in very much the same way as we would
20 look at a railroad.

21 Q. And would your answers in relation to
22 minimum and maximum rate control on trucking also apply
23 to water carriers -- coastal and inter-coastal?

24 A. I do not see any reason why not.

25 Q. And would you also advocate that you
26 would have legislation similar to what you have in the
27 United States that would prohibit foreign bottoms from
28 engaging in coastal and inter-coastal trade?

29 A. Well, now, it seems to me that the drift
30 of these questions is kind of shifting our ground. I



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2 started by talking about the possible necessity of
3 maximum rate regulation in the trucking industry under
4 some limiting conditions. And it is certainly true that
5 there is a close relationship between the matter of
6 freedom of entry and the necessity to regulate it.

7 If you have got restricted entry, and you have
8 franchise rights of some kind or other, then you do, of
9 course, in the absence of competition from some other form
10 of transportation, have a case in which the maximum rate
11 regulation may be a necessity. The question of foreign
12 bottoms in the coast-wise trade with us is unhappily a
13 very complicated one because of the national defence
14 aspect that comes to bear on it. If one were to talk
15 about it with reference only to the matter of the public
16 benefit as related to the transportation functions per se,
17 then I would say that our coast-wise laws which exclude
18 foreign tonnage do us a dis-service, but we have not
19 governed our coasting policy primarily by transportation
20 economic considerations.

21 Q. Well, actually nobody has applied and
22 governed transportation policies by economics in a sense
23 that economics was the number one, and other considerations
24 were lesser considerations?

25 A. I think that is correct.

26 Q. And you would not advocate otherwise?

27 A. I do not think we can allow economics to
28 take the whole stage when we have lots of other things to
29 which some weight has to be given.

30 Q. Now, Dr. Williams, I suggest to you that no



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2 rail shipper has a just cause for complaint if his rates
3 approximate or fall below the cost of moving the traffic
4 by an alternative media?

5 A. Well, I think that depends entirely on
6 whether we are talking about an alternative media that
7 is a reasonable substitute or one that is such a remote
8 substitute as not really to provide any control on the
9 situation.

10 Q. Well, in economics, Dr. Williams, who is
11 going to decide whether the alternative mode is or is
12 not providing what you call a real substitute? And this
13 word "real" is in quotation marks.

14 A. Oh, quite, yes.

15 Q. Who is going to decide this question?

16 A. There are, after all, degrees of
17 substituting ability and they shade off into some that
18 are very remote and some that are quite close.. I do
19 not think we have any recourse except to rely on public
20 authority to do that where we have issues of this kind
21 that are of public consequence.

22 It is part of the kind of thing that led us
23 into public regulation. We were in the posture, of
24 course, where the railroad made a faster advance over
25 the kinds of transportation available to us at an
26 earlier time. So that competition, at least, with
27 inland transportation by highway in the period when our
28 regulatory structure commenced to come up was in no
29 sense an acceptable alternative as either respects the
30 quality or cost of service, and therefore placed no



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2 limitation, was in the least acceptable either on
3 economic grounds, when it comes to the question of
4 differentials or so far as public acceptability was
5 concerned.

6 Q. Dr. Williams, if as a real substitute,
7 or what is the economist's definition of effective
8 competition is going to be decided, we can agree that
9 this is going to be a question that raises many hard-
10 fought issues between people.

11 A. No question about it.

12 Q. And we cannot with any certainty rely on
13 definitive tests; correct?

14 A. I think that is generally so. Any tests
15 that we may have, I would think, have to be applied
16 with a degree of judgment.

17 Q. And in fact the last judgment of any rate
18 is the effect of it in the market? You would agree
19 with Ripley on that?

20 A. Oh, yes, except that when you get into
21 that situation, again, you have something that is very
22 difficult to test.

23 Q. And even after you get in there, you do
24 not know, and I suggest to you you cannot say in
25 advance -- not only you do not know subsequently, but
26 you cannot know perspectively the demand characteristics
27 for all the myriad movements that are covered by any
28 given group of rates? Would you agree with that?

29 A. I think that is generally true, although
30 I think it is also true that with respect to a good
range of substantial traffic movements it is possible to



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2 make some fairly decent estimates or guesses. They are
3 not certainly definitive and they may be proved wrong
4 by the subsequent event.

5 Q. But the proof of them being wrong can have
6 a tremendous leverage on the financial stability of a
7 transportation company, such as a railroad; correct?

8 A. Very easily, if what we are talking about
9 is in a magnitude of consequences, traffic-wise.

10 Q. Now, Dr. Williams, in Canada the railways
11 must be able to show that competitive rates improve the
12 net revenue of the railway and the same is applicable to
13 agreed charges, and in view of the well established
14 tradition in this country in rate making, that a rate
15 must more than meet its variable cost to be just and
16 reasonable, I suggest to you and ask you if you would
17 agree, that there is possibly equalization area-wise
18 alone and no other means for maximum rate control in
19 this country for rail transportation?

20 A. I am not sure I quite get the burden of
21 your question?

22 Q. Let me put it again.

23 A. Yes.

24 Q. In Canada, competitive rated traffic,
25 whether it be competitive rates or agreed charges,
26 the railways have to be in a position to stand the
27 test that these rates have improved the net revenue
28 position of the railway to be able to meet that test?

29 A. Yes.

30 Q. And in view of this, plus the well



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2 established tradition in this country, Canada, that
3 just and reasonable rates, other than those specific
4 that I have mentioned, must be compensatory, meet their
5 variable ~~cost~~ and something in addition, I suggest to
6 you that -- and I ask you if you would agree -- there
7 is no need for maximum rate control, with a possible
8 exception of having a maximum range of rates for area
9 equalization? That was my question.

10 A. I think I understand your question now.
11 I do not believe I would agree with it in that context
12 as being entirely adequate to express my own feeling in
13 the matter.

14 The freight rate structure, of course, as the
15 economist looks at it, is a part of the general price
16 structure. It has certainly an influence upon the
17 allocation of economic activities within any territory
18 where it has application; it has some bearing and
19 sometimes a substantial bearing on what resources will
20 be developed, on where it is possible and appears wise
21 to make investments in productive enterprise of various
22 kinds; in consequence of which it would appear that
23 unless where one has what I would refer to as non-
24 competitive traffic, in the sense there is not at the
25 present any real close economic substitute available, there
26 were maximum rate controls, the possibility would seem
27 considerable that resources that it would be desirable
28 in the economy to develop, if the rate structure
29 reflected the costs, will fail of development because
30 the rate structure departs therefrom.



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2 There is, in other words, an allocation
3 question, as the economist sees the problem, that is
4 broader than the question of allocation among forms of
5 transport, and that is what is the influence of the
6 freight rate structure on the location and development
7 of economic activities.

8 Now, this, I think, has some bearing on what
9 you say about territorial equalization, but I would
10 think that it had to apply not merely to the
11 relationship of broad territories one to another, but
12 rather to individual points as well.

13 Q. Well, Dr. Williams, let me see if I
14 understand that answer. What you mean is this, by that
15 answer, that as soon as you find traffic -- and you
16 have recognized that this may be difficult to determine
17 -- that has no true substitutionality with respect to
18 modes of transportation, this then raises the question
19 of the need for maximum rate control; is that right?

20 A. For which there is no reasonably direct
21 and acceptable substitute, yes.

22 Q. Now, the only reason you say that that
23 requires maximum rate control, according to your
24 answer to my friend, Mr. Cumming, yesterday, if I
25 understood it correctly, is because it may result in
26 that traffic that has no substitutional mode of
27 transport bearing what? A more than reasonable share
28 of the transportation burden? Is that your position?

29 A. Well, this does not necessarily come
30 down to a question of what is reasonable. If one keeps



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2 it in the economic context, one can develop a
3 situation, and I think we have had examples of it in
4 the United States -- I do not know whether it is true
5 here --where because of the existence of competition
6 you get a reduction in the applicable rate structure,
7 and especially in the industries where the freight rates
8 are of some considerable importance as to the growth
9 and opportunity of the industries affected. You tend
10 to put the development of industries under somewhat
11 a forced draft under these circumstances and place
12 obstacles in their way if rates in other parts, if an
13 effective substitute has not appeared, are allowed to
14 depart substantially in an upward direction.

15 The question of reasonableness, I think,
16 arises in a little different context than that, but the
17 problem of economic allocation, I think, is certainly
18 an important one for any country which is interested in
19 considering its overall development.

20 Q. Yes, Dr. Williams, but there are two
21 points which come out of that answer and maybe I can
22 take the last one first. Under our economy, we do not
23 control maximum costs of labour?

24 A. Quite.

25 Q. And other costs of production; and these
26 all have a bearing upon all these economic allocations
27 and re-locations and use of labour and materials that
28 you have been speaking of, and yet, not withstanding
29 that, you would not advocate a completely regulated
30 economy, I take it? You would still say that you must



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2 regulate one factor in the price mechanism of location?

3 A. I would like to, as a matter of personal
4 and professional feeling, get away from regulation, just
5 as much and as fast and as far as I could, but the
6 difficulty is that we bring regulation in as a tool
7 precisely because we get into situations where we have
8 present a degree of monopoly power, as the economist
9 likes to call it, and we would consider ourselves free
10 to begin to depart from such a regulation when that
11 disappeared. Consequently, the distinction between the
12 presence and the absence of effective substitute is, to
13 me, a very important one.

14 Q. But there is elements of economic monopoly
15 power in this country. I do not know about the United
16 States maybe as well as you do, but let us take Canada.
17 There are elements of economic monopoly power in labour?

18 A. Of course.

19 Q. In patents; in processes. Are you
20 suggesting that because of that they should be regulated
21 and their maximum charges fixed?

22 A. Well, I think as a general proposition
23 one would say that in the public interest, when you have
24 monopoly elements, almost of whatever sort, the effect
25 of which is to permit a monopoly exaction against the
26 public, then you have an argument for regulation. You
27 may have an economic argument, but of course you may,
28 by political impracticability, which is something else
29 again --

30 Q. Let us not get in yet to the political



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2 factors, Dr. Williams. I am trying to understand the
3 economic factor. This goes back to the second point
4 you made in that earlier answer. I have covered the
5 last one, and the other one was that you used the
6 example of a competitive rate being instituted which
7 you said would have an effect upon the traffic which
8 had no, what you called, economic substitute mode. But
9 that is why I pointed out to you the difference in this
10 country, between this country and the United States, in
11 regard to competitive rates and agreed charges. And,
12 with these safeguards now in our law, I suggest to you
13 that while you may need it in the United States you
14 do not need it in Canada, and I am talking about
15 individual maximum rate control. Has that occurred to
16 you, that this problem in Canada had been taken care of
17 by the law in regard to competitive rates and agreed
18 charges?
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2 A. No, it had not occurred to me and I
3 still do not see that it does.

4 Q. Well, then, if each of the agreed
5 charges and each of the competitive rates by law must
6 be able to meet the test of increasing net revenue,
7 improving net revenue, how can there be a burden by
8 virtue of that thrown upon traffic that has not got an
9 economic substitution?

10 A. I do not think there is any burden cast
11 by the incident you are talking about. I do not think
12 I have ever argued there was a burden cast by any such
13 individual incident or even a collection of such inci-
14 dents. What we are finding, however, is that the
15 variety of pressures, including the inflationary pressure,
16 trend to force the traffic that as yet has no acceptable
17 substitute to take a good part of the increase in the
18 cost structure that come along, and so on. If you
19 were talking about making a new rate or an agreed
20 charge or a competitive rate in the normal course
21 that rate itself either retains traffic, either it is
22 threatened with loss or it develops new traffic, and
23 it is not of itself a rate that contributes something
24 over its direct or alternative cost as we might use
25 the term. I do not see that that casts a burden on
26 anything.

27 Q. The point is this; harsh though it may be
28 and harsh though it may become, the facts of the matter
29 are that some of the low rated long haul traffic which
30 has been getting cross subsidization from high rated



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2 traffic just cannot get it any more because the rail-
3 ways are not able to charge on that high rated traffic
4 the level of rates that permit them to maintain the
5 low rate to the degree that they do on this other
6 traffic. It is an economic fact.

7 MR. MAURO: There has been reference on
8 three or four occasions to the fact that in Canada we
9 have this safeguard, that the competitive rate or
10 the agreed charge must improve the net revenue of
11 the railways. While I don't want any legal argument,
12 I think it might be of assistance to Dr. Williams and
13 also to the Commission if I could read what the
14 legislation really says.

15 MR. SINCLAIR: If my friend says that is
16 not the law I shall refer him to the section.

17 MR. MAURO: I have the section.

18 MR. SINCLAIR: I have the sections. I
19 am objecting to my learned friend interrupting my
20 cross-examination of this witness in this manner.
21 If the Commission wants to know where the law is I
22 will say where I think it is.

23 MR. MAURO: The point is my friend is
24 postulating his questions on an interpretation of a
25 section of the Act, and I think it is important
26 that that Act be both before the witness and before
27 the Commission. In my humble opinion it says
28 nothing, nothing about improving any revenues nor
29 is there any check until the submission has been
30 made to the lieutenant governor in council and the



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2 railways meet and then an investigation is made
3 and it is to the effect that the making of the
4 agreed charges is likely to have.

5 MR. SINCLAIR: Just a minute -- I feel
6 very strongly that my friend gets up and says that
7 to a witness like Dr. Williams, that Ian Sinclair,
8 who has been in this business for quite a few years,
9 has misstated the case.

10 MR. MAURO: I think the section speaks
11 for itself.

12 THE CHAIRMAN: There is not a question as
13 to the law.

14 MR. SINCLAIR: I will just put on the
15 record, Mr. Chairman, and say to my friend that when
16 he says I do not know what is in this Railway Act and
17 in the Transport Act that I am surprised. Section 334,
18 subsection (6), the extent to which the net revenue
19 of the company will be improved by the proposed
20 changes -- that is No. 1, competitive rates. On
21 agreed charges, the Transport Act, Section 33, "is
22 likely to have on the net revenue of the carriers
23 who are parties to it".

24 MR. MAURO: Where is it about improving
25 any revenues? What is the effect?

26 MR. FRAWLEY: On the order that the Board
27 makes.

28 THE CHAIRMAN: We are not going to get into
29 semantics.

30 MR. FRAWLEY: It is a little more than



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2 semantics because this witness is a stranger from New
3 York and I think he should have the whole situation
4 stated to him before the question is put.

5 THE CHAIRMAN: This witness is very compe-
6 tent.

7 MR. FRAWLEY: But he does not profess to be
8 competent about what is in the Transport Act of Canada.

9 MR. SINCLAIR: Q. Well, Dr. Williams, if
10 I have misled you I am sorry, but I will say this to
11 you, that the way I put the question to you is what I
12 think is a proper interpretation of the Railway Act
13 and on that basis I will leave it.

14 I now ask you this: in so far as there is no
15 burdenput on traffic of which there is no substitution
16 there cannot be in that traffic any complaint. You
17 would agree with this?

18 A. I agree to this possible restatement
19 which may be what you were just saying, or may not.
20 I am not entirely certain that when a rate is made the
21 effect of which is to hold or develop traffic in the
22 face of clearcut legitimate competition and that could,
23 of course, be potential competition which is a thing
24 which we have more and more to recognize, where the
25 effect of that rate is to hold or to develop traffic,
26 and it does so, in that process it makes a net
27 contribution. Then, neither that rate nor the traffic
28 which moves under it, in my opinion, casts a burden on
29 anything else in the railroad traffic structure.

30 Q. My question to you is this: in so far as



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2 there is no burden cast, in so far as regulation of
3 railways are concerned, the shipper who is under what
4 you term the near effective substitutional has no
5 real cause of complaint?

6 A. Well, I would say he has no cause for
7 complaint about the particular reduced rate that we
8 are talking about, but this does not deprive him of
9 the cause of complaint on other grounds.

10 Q. I am sorry, but you and I are at cross
11 purposes. He has not cause of complaint for his
12 rates increasing from where they were before because
13 of the allegation this traffic did make the same
14 cross-subsidization that it did previously.

15 A. I think he certainly has cause of
16 complaint.

17 Q. Why? Because the answer to it is
18 if the railways do not get it through and as long as
19 they are operating within reasonable efficiency where
20 else can they get it unless it is going to be a state
21 enterprise?

22 A. This raises a question which I thought
23 was the question I was trying to raise in the submission
24 which I made as to where lies a solution which does
25 not on the one hand by the gradual increase in the
26 proportion of burden which may have to fall on the
27 declining body of traffic would have the effect of
28 solidifying the development which would otherwise
29 be desirable for the country. This would have, I
30 think, the effect of continuing increases on non-



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2 competitive traffic. There is the question that the
3 economist, I think, would be inclined to accept. I
4 think he could not say with assurance without further
5 examination that that would represent a disservice to
6 the national economy as a whole. The question then
7 arises that if it is a disservice is it so great a
8 disservice as to justify some other means of carrying
9 that burden other than to require it to be borne by
10 freight shippers in the present fashion.

11 Q. But, Dr. Williams, it is basic to what
12 you state here, that you must have it one way or the
13 other. You cannot live half regulated and half
14 not regulated, half slave and half free. Why do you
15 think you could live half slave and half free with
16 this economic application applying to only one section
17 of rail transportation and not applying to the whole of
18 it?

19 A. That is a very good question and one
20 that has troubled us a great deal. Unfortunately,
21 we economists as a whole have had to come to the
22 conclusion that both the general structure of water
23 carriers, for the most part, is of the kind that
24 permits us to expect that if they were left unregulated
25 we would get what the economist likes to call workable
26 competition that would be fruitful, and generally would
27 serve the public interest. We have on the other side
28 of it the fact that the railroad enterprise shows
29 different economic characteristics and structure and
30 that under those circumstances we could not accept any



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2 more than we in fact found in the past, that railroad
3 competition when it was entirely unregulated would
4 produce generally fruitful results. We are compelled
5 to make a distinction there because the railways, while
6 it certainly does not have all the characteristics of a
7 natural monopoly, it does have some, and it also has
8 a cost structure and the kind that very often goes along
9 with conditions that carry with them, on the one hand,
10 an opportunity to discriminate and, on the other hand,
11 substantial reasons why in the interests of the carrier
12 discrimination should come about. We would anticipate
13 that if you had freedom of entry in the trucking
14 industry, for instance, and under this highly direct
15 cost structure with limited overhead and a situation
16 where entry into the trucking industry is a com-
17 paratively easy thing involving limited capital invest-
18 ment, that we would get competition by which individual
19 members got entry into and exit from that industry so
20 that the competition would perform the function
21 reasonably adequately, adequately enough so that there
22 would be no great need for public concern. Most
23 of these elements, you see, are not present in the
24 railroad case. The railroads are not an easy
25 industry to enter because it is one requiring an
26 enormous capital investment. It is not an industry
27 that lends itself to competition of numerous carriers
28 between common points. It is not one from which
29 carriers can be easily expunged by the competition
30 process. We are left with the proposition that we do



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2 not see that certain of these elements of prospective
3 monopoly power and in some instances actual monopoly
4 power on the part of the railways have disappeared.

5 Q. Dr. Williams, now that you have done
6 with the transportation part of my question, how would
7 you like to deal with the other part of it? The
8 question was in the matter as a whole why if you are
9 right, and there could be people who disagreed with
10 you, that there is no pervasiveness of competition --
11 they could disagree?

12 A. Yes.

13 Q. In any event, how would you apply your
14 doctrine to allowing the balance of the economy as
15 a whole to go free?

16 A. Well, as you certainly must be aware
17 under our situation and, I suppose pretty much in
18 other countries, at least of the English tradition
19 the question of whether you have got a public utility or
20 public service industry which the public concludes
21 ought to be regulated is the question of whether or no
22 governments have declared it to fall into that cate-
23 gory. For instance, if one looks to the iron and
24 steel industry, here is one that is comparable in
25 some of its aspects; it is an industry of heavy capital
26 investment. It too is an industry that unless the
27 market is a pretty large market it will not sustain;
28 perhaps you have competition. There is some element
29 in that quite similar to the element that I have
30 just talked about in railroads. We in the United



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2 States have not thought it desirable to regulate the
3 iron and steel industry. Some people have suggested
4 this ought to be, but, on the other hand, the industry
5 seems to be pursuing a course of restraint inasmuch
6 as not to have given rise to any great public clamour.
7 I think you have a cast where many of these things
8 tend to shade, they are not sharp distinctions.
9 However, when you talk of motor carriers on one hand
10 and railroads on the other hand you have two kinds of
11 industries that are nearer to the poles than would
12 be true if you were talking about the railroads versus
13 the steel companies, and their respective economic
14 characteristics.

15 Q. But to make your plan and to carry
16 your doctrine of substitutional and allocation out,
17 being a criterion of maximum regulation for the good
18 of allocation of resources, to carry it to its complete
19 and absolute end would require a completely planned
20 economy, I suggest to you, not just restricted to
21 transportation?

22 A. Well, I do not think that quite follows.
23 There are, I think, in our economy, and there must be
24 in areas rather large elements in which the competitive
25 forces can be said to be reasonable and likely producing
26 results that are not far different from those that
27 are a reasonable economic result.

28 Q. You have mentioned steel. What about
29 aluminum?

30 A. We are looking at things -- well, you



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2 know we found some little trouble in that case in our
3 own country. I do not know what the situation might
4 be in your country but there are several ways of dealing
5 with a problem of that kind. One way is to stimulate
6 some competition where it is present which is what we
7 did in the United States. In the alternative one
8 could consider some manner of regulation to produce
9 a like result, or at least some result.

10 Q. So the test of reasonableness of a
11 maximum rate would be an extremely difficult test to
12 apply?

13 A. It is certainly true, and I think I said
14 as much when I brought it in.

15 Q. And you would also agree that your test
16 of reasonableness of a maximum rate has not been adopted
17 in any free enterprise economy that you know of?

18 A. So far as I am aware it has not been
19 adopted anywhere if by that you mean embracing it either
20 into law or into administrative procedure. That is
21 right.

22 MR. MAURO: Free enterprise or otherwise?

23 THE WITNESS: Yes, I know of no exceptions
24 to that.

25 MR. SINCLAIR: Q. Now, you have stated
26 there appears to be a close relationship between the
27 Canadian and United States transportation developments
28 and further on in the same paragraph you say:

29 "Many of the geographic features evidenced
30 in the northern United States extend into



1
2 the more developed portions of Canada
3 while even many of the political factors
4 which have a bearing upon transportation
5 policy have or have had counterparts in
6 the United States."

7 In the United States is there an appeal from the
8 federal regulatory authority to a political tribunal
9 such as the cabinet?

10 A. There certainly is no appeal to the
11 cabinet, there is an appeal to the Congress of the
12 United States which has to take a form of search for
13 legislative relief.

14 Q. Yes, there is no recourse except through
15 the normal process, the democratic process, of legis-
16 lative change?

17 A. That is correct. We put it that once
18 you have exhausted the recourse of our court system under
19 the existing statute then you go to Congress and seek
20 legislative relief if you think you have not got what
21 you ought to have.

22 Q. As a transportationman, you agree that
23 is the only way to run things?

24 MR. MAURO: I will have to warn the witness
25 that he may be deported.

26 THE CHAIRMAN: Oh, that is a question of
27 law.

28 MR. SINCLAIR: A question of law? Well,
29 with respect, Mr. Chairman, if that is a question of
30 law then the social sciences and all things maybe some



1
2 of us feel rather strongly about ---

3 MR. FRAWLEY: It is a question of baying at
4 the moon.

5 MR. SINCLAIR: It is a question of the pro-
6 vinces having an unfair advantage which they have used
7 and it is a question of the application in one particular
8 case of things it is hard to believe happened in this
9 country.

10 MR. FRAWLEY: God help us if you take it away.

11 MR. SINCLAIR: I am expecting this
12 Commission to recognize the existence of it.

13 Q. You have not got in the United States
14 railroads with full power to own, operate and coordinate
15 rail transportation with other modes of transportation?
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2 A. They certainly have not under the present
3 law.

4 Q. They have in Canada -- you knew that?

5 A. Oh yes, I understood so.

6 Q. In the United States have you a situation
7 that arises where there is approximately 90% of rail
8 transportation conducted by two companies, one of which
9 is privately owned and the other is nationalized?

10 A. No, we have never had any such situation,
11 and we have no national ownership of any of our railroad
12 companies.

13 Q. In the United States I suggest to you that
14 collective labour agreements on the railways are much more
15 restrictive than they are in Canada?

16 A. That has been my general understanding.

17 Q. In the United States I suggest to you
18 there is no counterpart to the Maritime Freight Rates
19 Act or the bridge subsidy wherein the freight rate
20 structure of the country has been used as a vehicle
21 to subsidize geographical areas?

22 A. I think that is correct. I do not
23 believe we ever had a counterpart for that type of
24 subsidy.

25 Q. In the United States there are no rate
26 levels fixed by statute and incapable of being changed
27 to reflect increased transportation costs such as
28 exist in Canada?

29 A. That is also true. We have no statutory
30 rates, although we have had a few threats of them.



1
2 Happily, we do not have them.

3 Q. I suggest to you that in the United
4 States transportation subventions for the movement of
5 traffic such as coal and feed grain is not a part of
6 the transportation picture?

7 A. I did not quite get that.

8 Q. Transportation subventions for the
9 movement of coal and feed grain by railway are not part
10 of the transportation picture?

11 A. Certainly not, as a posture technique;
12 we did have some in war time, but that was an
13 exceptional circumstance.

14 Q. In the United States security and
15 competitive rail routes and routes involving numerous
16 road transfers is a substantial problem in railway
17 transportaton?

18 A. We think of it as a rather serious
19 problem.

20 Q. In the United States there is conflicting
21 jurisdiction between federal and state authority under
22 the legislative and control regulation over rail
23 carriers?

24 A. I am not sure I would quite subscribe to
25 that. There has been conflict over the years. Our
26 general principle, of course, is that when we get into
27 a situation where any action of a state regulatory
28 authority might have an effect, or could be shown --
29 that is perhaps the proper way to put it -- could be
30 shown to have cast a burden on interstate commerce,



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2 then the federal authority is supreme. Now, if
3 by "conflict" you mean a kind of running trouble,
4 that is perfectly true. We do not have a case in the
5 States where the Commission has granted that in whole
6 or in part, but we have a whole host of section 13
7 proceedings?

8 Q. And also this question of what does or
9 does not create a burden on interstate commerce is a
10 difficult question?

11 A. It is a difficult question. While a good
12 many of the difficulties were dealt with at least as
13 precedents in a much earlier time, it gave us more more
14 trouble earlier than now.

15 Q. I suggest to you the average length of
16 haul on class one railways in the United States is
17 about half the average length of haul of the Canadian
18 Pacific?

19 A. I do not know whether that is so or not.
20 I know what the average haul in the United States is,
21 but what it may be in Canada I have not attempted to
22 ascertain.

23 Q. Well, I will tell you that the average
24 length of haul on Canadian Pacific in 1958, was just
25 under 500 miles.

26 A. Well, our average haul taking the
27 railroads as a system was then not too far behind,
28 but if you are meaning to imply the average haul on a
29 single railroad, we are certainly below.

30 Q. I have got a figure in 1958 that the



1
2 average length of haul in the United States on class 1
3 railways was 251.3 miles?

4 A. This is not considered as a system. If
5 you consider it as a system the figure would have been
6 somewhere in the order of 420.

7 Q. But this requires interplay -- interchange?

8 A. Yes, interchange, that is so.

9 Q. And that is costly?

10 A. It has its costs, yes.

11 Q. And you have mentioned that there is
12 greater rate flexibility in Canada than in the United
13 States, and we have discussed competitive rated traffic such
14 as agreed charges and competition batch traffic by
15 tariff. There are other flexibilities in Canada and
16 they are not unimportant in rate making, are they, that
17 you know of?

18 A. You mean flexibilities by comparison
19 with our practices?

20 Q. Yes.

21 A. Well, I think it well may be in that
22 posture, but I would not be able to say in detail
23 what flexibilities there may be.

24 Q. For one example, you suggested it was
25 necessary to recognize potential competition. By
26 statute in the United States on transcontinental rates
27 you are unable to recognize potential competition;
28 correct?

29 A. I do not think I would quite agree that
30 it is outside the discretion of the Commission to



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2 recognize that.

3 Q. Does it not say in the section that it
4 must be actual and not potential?

5 A. If you are talking about 4 section relief,
6 that is right; it must be actual and compelling.

7 Q. And not potential?

8 A. That is right.

9 Q. And it is restrictive?

10 A. Certainly.

11 Q. And another restriction you have got is
12 that I suggest to you you can't put in rates except
13 under special permission, except on statutory notice of
14 30 days, contrasted to Canada where you can put in rates
15 to meet the competitive position on a spot basis
16 without any notice and before the tariff is even filed
17 with the regulatory authority?

18 A. That is true. We do grant special
19 permission, but on a rather considerable showing of
20 urgency, and it has to be dealt with as a special case.

21 Q. And there is a time lag involved?

22 A. Of course.

23 Q. In view of these substantial difficulties
24 in the political climate that we have spoken about,
25 in the rate climate, would you not agree that what might be
26 good or necessary in the United States jurisdiction
27 could well not be necessary or good in this jurisdiction?

28 A. Well, I am certainly willing to countenance
29 the possibility that would be so. Obviously, one does
30 not import something from one country to another merely



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2 because it is good in the one. It has to be examined
3 in the light of the country where you propose to apply
4 it.

5 Q. These marked differences require a close
6 analysis in their differences and in the impact on the
7 country and its manufacturing and its historical and
8 economic complex before you can apply economic
9 principles to it.

10 A. I would certainly think so, yes indeed.
11 To put it the other way around, we in the United States
12 would certainly not accept without any examination
13 precedents developed out of Canadian practice or
14 experience. We would treat them, I think, as quite
15 possible suggestions -- things we needed to look into
16 and see what nature and applicability they may have
17 and what adjustment, if any, they might need under our
18 own conditions.

19 Q. Would you agree the necessity of dealing
20 with costs to meet tests of being compensatory, such
21 as are required in our legislation and which are not
22 required in the same degree, if at all, in similar
23 circumstances in the United States, has enabled the
24 Canadian railways to be active in costing for a great
25 many years?

26 A. This, so far as I know, is true.

27 Q. Indeed, Dr. Williams, I think you will
28 agree that costing on the Canadian Pacific and the people
29 who have done its costing have been active in seminars in
30 the United States in developing and advising on techniques?



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2 A. Quite. We have used techniques which they
3 have developed for you in our submission before the
4 Interstate Commerce Commission.

5 Q. And the result of the Canadian railways
6 being faced with their various advantages of having
7 only two systems as against a myriad of systems
8 such as you have in the United States, the drag of
9 multiplicity leading to consolidation is not a
10 problem and does not raise the cost such as has
11 been happening in the United States?

12 Q. I think this is very likely true. We
13 think we have a large element of burden that falls
14 upon us because of that multiplicity and because of
15 our freedom with respect to multiple line routes and
16 the degree of security it involves and the competitive
17 duplication, which I would guess must be on a
18 considerably larger scale than between your two main
19 railways. That would be my guess at any rate.

20 BY COMMISSIONER ANSCOMB:

21 Q. Dr. would you like to tell us what you
22 think in Canada -- and you are not in America now --
23 of a situation where you have got a large national
24 railway that has 26% of its total freight traffic tied
25 up to a freight rate charge of over half a century
26 ago?

27 A. Well, I think that is a thing that
28 ought to be looked at with a very keen and careful
29 eye. My feeling has always been that it is undesirable
30 to peg these things too sharply, and certainly that



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2 there ought to be procedures for flexibility and for
3 re-examination. What the situation would be here, of
4 course, would depend on facts that are not within my
5 knowledge; that is to say, I would think that these
6 rates require to be tested since they have been in
7 force for such a long period of time without change,
8 and in the light of changes in technology of railroading,
9 changes in composition of traffic, changes in the
10 value of money and so on to see whether or not they are
11 as of this time just and reasonable rates, because it
12 certainly would not follow that because they may have been
13 in 1897 that that is now true. But one could not say
14 offhand merely from the fact they have been in effect
15 for a long period of time that they are necessarily not
16 satisfactory rates at the present time. There is a
17 presumption, certainly, that they ought to be examined
18 awfully carefully.

19 Q. You have nothing in that category in
20 the United States?

21 A. We have no such thing as a statutory
22 rate, and never have had except in some of our states,
23 and in the period largely before federal regulation
24 came along in which we had things called maximum
25 rate and fair laws. They were not the same thing as
26 your statutory grain rates though. They fixed
27 maxima and very often these maxima were somewhat
28 liberal and on the whole they did not last over any
29 great length of time. So, they provided no very serious
30 embarrassment to adjustment with some reasonable



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2 dispatch.

3 Q. I am correct in stating, I believe, by
4 what you have said in the last couple of days, that
5 there are no subsidies -- and I am not talking about
6 original land grants or anything of that nature --
7 no subsidies given by any of your states or the
8 national government to any railway in the United States?

9 A. Well, that would have been a true
10 statement, I think, just a few months back but we have
11 recently in the State of New Jersey made grants by that
12 state for the maintenance of passenger commutation
13 operations in what is a part of the New York regional
14 area. Those, I think, ought properly to be described
15 in the context in which you used the term as
16 subsidies. The state of New Jersey have granted such
17 subsidies to the principal commuter railways. But
18 that, I think it would be correct to say, is a new
19 departure for us. We have not in the past granted
20 subsidies of that or any other character to railways
21 since the great developmental period when we had
22 assistance that was very similar in general character
23 to what occurred here.

24 Q. Just on that point, could you tell us
25 quite briefly on what basis the subsidy is given?
26 Is it volume of traffic?

27 A. I have not examined it in detail, but
28 this is my understanding of it, which could possibly
29 be not entirely correct. It was my understanding that
30 it started out by a given amount of money being made



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2 available by the state which would have to be
3 distributed among the group of commuter railways
4 operating in northern New Jersey and generally into
5 New York city. Then, the question would arise how to
6 apportion it among them, and that was based on the
7 volume of their commutation traffic -- essentially, the
8 number of commuter ticket buyers. It does not appear
9 -- I will not say it does not appear to be -- it is
10 not at a level which corresponds with the railways'
11 estimates of their deficits in the commuter service,
12 but it goes some distance in that direction and the
13 railways have been required as a condition to
14 accepting the subsidy to agree to maintain the level
15 of service which they have been operating. So, it is
16 not entirely a one-way street. It is a matter of
17 agreement -- in effect a contract between each railroad
18 and the state. Incidentally, it is a one year
19 proposition and I guess it is quite speculative whether
20 it will be renewed. There is no permanence to it
21 beyond that.

22 Q. Could you tell us very briefly what has
23 happened in the last two years or, if it is necessary,
24 go back three years -- but not way back -- what has
25 happened in amalgamations with privately owned
26 companies, which you all are in the United States,
27 generally as far as railways are concerned, and what
28 you think is going to happen in the next five years.

29 A. Well, we had in that period of time a
30 merger between the Norfolk and Western and Virginia



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2 Railway Companies which are close parallel companies
3 in the handling of bituminous coal out of the far
4 west margin of Virginia and West Virginia to the
5 Atlantic Seaboard. They are carriers which are very
6 much alike in many respects. That merger went through
7 ultimately without any final opposition standing in
8 the way. It was worked out, I think, very ably by
9 the Norfolk and Western management in meeting a wide
10 range of local objection as well as the objection of
11 their organized employees, and taking care of their
12 objection before it appeared in a proceeding before
13 the Interstate Commerce Commission, and the matter
14 was handled quite expeditiously. The Commission only
15 recently, and in the face of considerable opposition,
16 approved a merger between the Erie and Lackawana
17 railroads in the official territory where, because of
18 the nature of the Lackawana as a bridge line in part
19 between the Niagara gateway and New York City, working
20 in conjunction with railways west of the Niagara
21 gateway which do not have access to New York City,
22 raised a lot of question about the maintenance of
23 existing routes and existing joint rates, and the
24 Commission attached its usual conditions designed to
25 preserve the interests of other railways that may be
26 affected by this merger. Apart from the position of
27 other railways and the effort of certain of the labour
28 unions to secure the attachment of conditions beyond
29 which the Commission felt it was required under the
30 law to attach, there was not a great deal of



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2 opposition to that. We have, either in the form of
3 applications already before the Commission or probably
4 about to go there, some cases that are likely to turn
5 out to be vastly different. We have a proposed merger
6 of the Atlantic coastline and the Seaboard Line
7 Railway Company in the south which, among other things,
8 would cast the Florida east coast adrift, and the
9 Florida Peninsula with no independent connection to the
10 north except for the Southern Railway Company which
11 would create a new system and that is worrisome to the
12 Southern Railway which is appearing in opposition, and
13 it is complicated by the fact they have an interest in
14 the railway which was merged with the Chatanooga and
15 St. Louis. This will be a much more hard fought case
16 than the ones approved in the past. When we get to
17 the northwestern matter, there has been work for some
18 years now on the question of merging the Great-West ,
19 Northern Pacific, Burlington and Spokane, Portland
20 and Seattle; they are closely tied together by the
21 stockholdings of the Northern Pacific in the
22 Burlington and Spokane, and the joint ownership by
23 those two of the Portland and Seattle. That too will
24 be a very controversial case. None of us have any
25 idea how the Commission will deal with such
26 controversial measures. Our law, after all, is one
27 which really does not set forth very much in the way
28 of standards and under which the Commission has to
29 deal with matters of this kind. We are now finding
30 railways are coming forward with consolidation



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2 proposals on different grounds than were often the
3 case in the past. The argument now is very much in
4 the direction of improving the efficiency of railway
5 system and the emphasis is very much on the savings
6 which are expected to be realized, and the Commission
7 faces the hard question not dissimilar from the one
8 we were discussing a while ago, although in a different
9 context, whether the savings that promise more
10 efficient railway transportation out of these mergers
11 outweigh these dislocations that will certainly result
12 to other railways and the present channels of movement
13 to certain local communities. In the case of the Erie-
14 Lackawana merger, they expect to put the through
15 freight traffic over the Erie Railway Company and to
16 place the passenger service over the line of the
17 Lackawana through Scranton where it is now a largely
18 three track main line, but they expect to reduce it to
19 a single track. Scranton has for long years been
20 deeply dependent on the Lackawana, and you can imagine
21 it is very disturbing locally. I do not know where
22 that will go, but I think that is a fair summary of
23 pretty much where we stand apart from this interesting
24 competition between the New York Central and the
25 Chesapeake and Ohio over the Baltimore and Ohio which
26 at the moment seems to be at a standstill, in which
27 the New York Central is desirous, if it is not able
28 to control the Baltimore and Ohio alone, certainly
29 of a threeway merger, and the Chesapeake and Ohio
30 opposed to the three way merger.



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2 THE CHAIRMAN: Order, please. Mr. Mann?

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4 BY COMMISSIONER MANN:

5 Q. Dr. Williams, you have had a pretty
6 extensive discussion with counsel. There are a
7 few questions I have; some of them have been covered,
8 and some of them I would like to get a little infor-
9 mation on, if I may.

10 Before I start these questions, there was
11 something that arose out of Commissioner Anscomb's
12 question to you with regard to subsidies in the United
13 States. You mentioned that the State of New Jersey had
14 recently given a commutation subsidy. Am I right in
15 recollecting that there are discussions going on in
16 the State of New York and Pennsylvania for similar
17 subsidies?

18 A. There were discussions in the State of
19 New York. I do not know whether there are any cur-
20 rently in being. Right after Governor Rockefeller
21 took office, there was set up a small group to look into
22 the problem of the New York State commutation situation
23 which broadened its terms of reference; either it did,
24 or perhaps its instructions entitled it to do so, to
25 consider the state of railways as a whole in the
26 State of New York. It did not result in what I would
27 call a subsidy. It resulted, however, in a reaffirma-
28 tion of the tax loss as applicable to railroads in the
29 State of New York, which brought the level of taxes
30 over a five-year period in successive steps down to



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2 a position that is not in great disparity, at least,
3 from what happened in neighbouring states, such as
4 Pennsylvania and Ohio, because it was disclosed
5 that the level of taxation in New York State was well
6 above the pattern of most of the states, and by no
7 means as bad as New Jersey.

8 There was, of course, the making of funds
9 available to the port of New York authorities for
10 the purchase of cars which would be made available to
11 the railroads on a rental basis, and undoubtedly there
12 would be no subsidy there. It is a use of public
13 credit, however, which raises some little question as
14 to whether it was a minor subsidy element.

15 Q. You partly anticipated my next question,
16 Dr. Williams, which was the use of the tax structure
17 as a means of relieving railroad disabilities, and
18 you mentioned that this was being done in the state
19 of New York. Is it also done on the municipal level
20 at all?

21 A. Well, yes, it is in some situations,
22 and notably in the state of New York in the case of
23 the Long Island Railroad Company which operates under
24 a special statute of the state as a railroad re-
25 development corporation and which, after it had gone
26 into receivership and long proceedings had ensued to
27 find ways and means of making it viable, it resulted
28 in an agreement that resulted in a reduction by one
29 half of local taxation in counties and communities
30 in Long Island. It is always a method that is being



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2 suggested. It is being suggested actively by the
3 New Haven Railroad. Within the states it serves, for
4 example, as a means of relief for the situation of that
5 road.

6 There may be other examples of it with which
7 I am not familiar.

8 Q. Thank you, Dr. Williams. Now, if I
9 may turn to the questions I had, on page 3 of your
10 submission you have the statement:

11 "For in an economy which seeks rapid growth,
12 expenditures for performance of the trans-
13 portation function ought to be held to a
14 minimum."

15 I wonder, Dr. Williams, whether there could be a case
16 made for the opposite? What I have in mind is the
17 use of transportation expenditures as a pump-priming
18 function for the economic growth of a country. I
19 refer you particularly to the Canadian West and its
20 development?

21 A. Yes, I think you can make and argue a
22 case on the other side of this. This is my conclusion,
23 and there are certainly some who would disagree
24 and would disagree rather violently with me on that.

25 However, I think one has to examine what
26 the conjunction of circumstances is. We, after all,
27 followed a policy not greatly different from the policy
28 that you followed at an earlier time in opening out your
29 own western country. There is a question on which
30 no doubt economists would disagree, as to whether once



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2 you have a basic transportation structure and what you
3 are talking about is a country that has really been
4 opened out but is moving to a more intensive stage
5 of development, that same kind of medicine is appropriate;
6 it may fit well one set of circumstances and not fit
7 well another.

8 Q. Generally, then, in the less developed
9 strata of the country; for instance, for the opening
10 up of the Canadian North there is a case, perhaps, to
11 be made that does not look primarily to the minimizing
12 of transportation expenditures?

13 A. Oh, well, of course, where you are
14 dealing with territories still to be opened up, it
15 without question is necessary to provide transportation
16 facilities yet.

17 There was in our own development, of course,
18 a certain recklessness, thoughtlessness and generality
19 about the way in which we expanded our railroad system
20 by government aids into the west, and there was a sort
21 of a kind of a feeling that if you could only get
22 transportation everything would follow in train.
23 This is not true, unless other circumstances support
24 it. As one moves into opening out new areas today,
25 I would hope in such a case as forest or mineral
26 resources, which are to be brought out, one could pin-
27 point the transportation requirements closely enough
28 so one does not need a lavish development, but one
29 essential to the purpose in view.

30 Q. In the discussion we have just had, it



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2 was clear to me I was using transportation as trans-
3 portation rather than railways, and I take it your refer-
4 ence was the same?

5 A. Yes, quite, and there is the further
6 question if you want to open up some territory, given
7 those circumstances, is it wise to do it by railways
8 or some other form -- which is an election we did not
9 have at an earlier time.

10 Q. Dr. Williams, on page 5 of your sub-
11 mission, and we have already had some discussion of
12 that with Mr. Sinclair, you give an estimate made by
13 students of transportation in the United States of
14 the mileage which is in excess.

15 Now, what I wondered about, and this I do
16 not think has been covered, is what criteria one
17 could use in seeing whether rail mileage is in excess
18 of requirements?

19 A. No very simple criteria, I am afraid.
20 An excessive mileage, as we use the term generally means
21 to us that because of the nature of our competitive
22 development we want to work and put competitive lines
23 on railroads to a great many points and into closely
24 adjacent territory; and, in consequence, we laid down
25 far more railroad plant than is really required to
26 perform the volume of traffic between the points in
27 question. We are in the position, therefore, in
28 many instances where if we could concentrate the
29 traffic on one or a few of a number of lines we
30 would certainly have a more efficient performance of



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2 the railroad transportation function, and we would have
3 a further dividend in that we would be capable of
4 concentrating such capital generalization as we have
5 in the railroad industry on a more limited mileage
6 line and could produce far better standards in traffic
7 densities and get, overall, a much better result.

8 One has to judge that on the basis of the
9 dispensability of a line which may be due -- Mr.
10 Sinclair spoke of looking at the map, and I agreed
11 with him you cannot decide anything by looking at
12 the map, because you may well find a situation which
13 means that you have such an amount of connected industry
14 that is reliant on the railroad on a particular line,
15 and given the terrain conditions and otherwise, as to
16 prevent that abandonment without causing some structural
17 disorder. But we have a lot of circumstances in
18 which we have almost directly parallel lines of railways,
19 some of them built at quite heavy cost, unhappily, and
20 where the volume of traffic has never grown up to the
21 full capacity that was installed.

22 What you come down to is that in order to
23 come to any such estimate as this you have to study the
24 thing in detail and consider the alternative ways in which
25 you would accomplish transportation over the remaining
26 network.

27 Q. And the extent and quality of the highway
28 network and waterway network, of course, have a bearing
29 on that study?

30 A. It may have a bearing on it; very frequently



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2 it would have a bearing on it. But even in our case,
3 where we have a line of railroad that is handling any
4 volume of traffic of consequence, it is rather rarely
5 the case that you can ascertain that it would be cheaper
6 to supply highway transportation instead, even if you
7 have the highway already there. The railroad may, with
8 the volume of traffic it has, not be operating at any
9 kind of optimum for the installed capacity, but it may
10 still be providing transportation more cheaply than
11 we could generate it on the highway. Exactly where
12 that dividing line is would depend on the conditions
13 of the particular railroad, on the one hand, and what
14 could be done with highway transportation in that
15 location, on the other.

16 Q. Is it possible to make excess capacity
17 estimates for given segments of line?

18 A. Oh, it is possible to make estimates for
19 almost anything.

20 Q. I mean, valid estimates?

21 A. But that one is a very difficult problem.
22 You can, and the manual of our corps of engineers of
23 the army has a formula for that. I suppose maybe the
24 Canadian army has something similar. You can calculate
25 a theoretical capacity of a line of railroad which
26 assumes that you load it twenty-four hours a day at
27 what is indicated as the theoretical capacity. This
28 is almost without meaning. It may have meaning in a
29 military operation, because you can then adjust your
30 traffic into that capacity. But we have the problem



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2 that we are dealing with commercial conditions in a
3 highly competitive world, in which any railroad company
4 quite clearly has to operate its services with some
5 regard to what the public needs and what its competitors
6 are offering, in consequence of which the useful com-
7 mercial capacity of a line of railroad will turn out
8 to be something substantially less than any theoretical
9 estimate of its capacity.

10 Our Interstate Commerce Commission toyed,
11 some years ago, with the notion of trying to make such
12 capacity studies and ultimately came to the conclusion
13 that that thing could not be pinpointed very well.

14 Railroad officers may often have pretty good
15 judgments of it. When we went into the Second War,
16 a great many of them were surprised to discover the
17 capacity of their lines of railroad, which they would
18 have hardly believed out of their experience prewar.
19 Another example is you come back and say, "Well, that
20 is 1944; the railroad was loaded with so much traffic,
21 and we managed to handle it, and we are pretty close
22 to the maximum, so that is a representation of the
23 capacity of the line." But, unfortunately, a rail-
24 road plant does not stay constant in its physical
25 characteristics, nor does the traffic stay constant
26 in its pattern and other requirements so that you can
27 carry that kind of thing forward for very many years.

28 Q. You are, of course, familiar with the fact
29 that density studies have been made in terms of gross
30 ton miles per mile of track per year. Do they, in



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2 your opinion, give you a pretty good indication of
3 capacity or excess capacity?

4 A. Not standing by themselves. I would
5 say, for example, you might have a density over a line
6 of railroad and denominate that line of railroad as a
7 single track. But there are all kinds of single tracks.
8 You may have a railroad of difficult or easy profile;
9 you may have a railroad with frequent or infrequent
10 passing sidings; there may be long or short passing
11 sidings; there may be a tracks signal system or
12 centralized traffic control, or nothing but the use
13 of time table and train orders. All these things
14 affect the capacity of the line.

15 If we go to double track railroad, many of
16 those same things may have an effect upon it. So I
17 think you would have to take density over against the
18 particular facility on which that density was being
19 accomplished, and then you could probably perform --
20 you could achieve an educated guess as to how well
21 that railroad was loaded.

22 Q. Turning to another subject, Dr. Williams,
23 and you have had some discussion about this with Mr.
24 Cumming, on page 7 you seem -- at least to me, and I may
25 be wrong -- you seem to make a distinction between
26 commercial and market competition, and that distinction
27 was not clear to me, and I wondered whether I have
28 read a distinction into it that I should not have?

29 A. I thought at one time we tended to make
30 a distinction, but that distinction has tended to be



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2 blurred. I often use the term "market competition"
3 without anything else, as referring to those kinds of
4 competition that are other than direct carrier competi-
5 tion, which arise out of any of the commercial relation-
6 ships, whether the source for new inbound competitive
7 supplies or the seeking for excess to market outside.
8 So that, I did not really intend to imply a distinction
9 here.

10 Q. In your brief, Dr. Williams, you point
11 out a central problem of finding ways to use each of
12 the modes of transportation severally and in combination
13 in such a way as will conduce to the greatest efficiency
14 in the discharge of the overall transportation function.

15 Now, I think you have already had some dis-
16 cussions about the question of ownership of one mode
17 of transportation by another, and if my recollection is
18 right you said that there should be no restriction on
19 the ownership of one mode of transportation by another.

20 I wondered about what you said, or what you
21 and your colleagues said, in the Federal Transportation
22 Policy and Programme, where I find at page 8 the follow-
23 ing passage:

24 "Generally, control of one mode of
25 transport by another is neither necessary
26 nor recommended, although a more flexible
27 attitude on the part of the regulatory
28 authority is desirable where a clear
29 demonstration can be made that increased
30 efficiency will result."



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2 A. Yes.

3 Q. When you gave your answer earlier, it
4 was in the light of this; was it?

5 A. Oh, in the light of that, but I was
6 speaking with respect to my personal views earlier,
7 and quite without regard to what might be appropriate
8 to place in a government report within our own particu-
9 lar context at this time.

10 There are many things in that report in
11 which what was recommended certainly does not go as
12 far as I would recommend in the ultimate, but which,
13 nevertheless, go in the direction that I would hope
14 that we might be moving in, and we do, as I suppose
15 most governmental groups do, have some hope that our
16 recommendations or at least some of them would appear
17 not so unreasonable in the context of our conflicting
18 interests so that it would be possible to at least
19 carry some of them into force.
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2 We start from a different position because
3 we have restraint in the Civil Aeronautics Act, the
4 Panama Canal Act and the Interstate Commerce Commission
5 Act, and elsewhere, which keep us in a pretty watertight
6 separation, with some exceptions, among our forms of
7 transportation. We would look for a way possibly of
8 getting a mitigation of that without bringing down on
9 our heads the whole force of the conflict about what the
10 railroads call diversification and what some others call
11 integration. We did not succeed because nobody mistook
12 the direction of it.

13 Q. Mr. Sinclair gave you what I think is one
14 of the most complete catalogues of differences between
15 Canada and the United States with regard to railway
16 transportation. He also discussed with you, I think
17 under that heading of national policy lines the concept
18 that you mention at page 34 of your brief. Are there
19 any examples of national policy lines in the United
20 States or any that fall into that category in any way?

21 A. Well, I suppose you could go back and
22 conceivably take the original Pacific Railroad as a
23 national policy line which was a thing carried forward
24 with more expensive subsidies than we had ever had
25 in our transportation setup. It was done with a few
26 not to its prospects of minimum commercial return but
27 because we were deeply concerned about the Pacific
28 seaboard and its political and commercial relationship
29 to the rest of the country and the risk that it might
30 be torn off. I think you may say that was a national



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2 policy line, that is, at that time, but I cannot think
3 of others that fall readily into that category.

4 Q. The travails of the minute men will not
5 make policy lines out of your whole railroads, will
6 they?

7 A. No.

8 Q. At page 35 you are dealing with sub-
9 sidies in regard to the abandonment problem and that
10 brings me to the general problem of subsidies in
11 transportation about which this Commission has heard
12 quite a bit so far. I wonder if it would be possible
13 for you to spell out the criteria for the granting of
14 subsidies in transportation?

15 A. Well, I think that is a very difficult
16 thing to do. So far as I have tried to do it, it
17 looks to me somewhat in this guise that where you have
18 a situation in which government policy in some shape
19 or form requires carriers to do or not to do certain
20 things that the underlying economies would suggest
21 that they ought to do or not to do and where that is
22 a reasonably clearcut situation which could fall
23 perhaps from the conclusion of a sustaining project
24 into, notwithstanding substantial showing that the
25 line of the railroad could not sustain itself economi-
26 cally, abandonment was denied. It may happen in the
27 case of a situation where we have a non-compensatory
28 element in the rate structure and yet public policy
29 intervened to prevent its being raised to a compen-
30 satory level. These would be the kinds of things in



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2 which I would think subsidy might be an alternative
3 that ought to be considered.

4 Subsidy, of course, is a thing worrisome to
5 anybody in economics and I suppose more worrisome to
6 those of us who come from the States perhaps than those
7 of us who come from some other parts of the world. It
8 would be, I think, a desirable further criterion that if
9 such subsidies were to be established we saw some hope
10 of perhaps some process associated with them which we
11 could rely upon with some confidence of enabling us
12 to get rid of them. Again there may be reasons lying
13 outside the transportation areas. There may be cases
14 where one would feel compelled to do something more
15 than that.

16 Q. If the criteria that you have set out
17 were to be met is there any fear on your part that
18 subsidies so given might interfere with the transporta-
19 tion pricing system?

20 A. Well, in the second case where I suggested
21 there might be a case for subsidy as a result of an
22 unwillingness to permit non-compensatory rates to be
23 raised. There is also the point of tampering with
24 that economic principle so far as subsidy is concerned
25 and the subsidy is a directive rather than itself a
26 cause of dislocation in the rate structure in the case
27 of sustaining services which are maintained at a loss,
28 but, fortunately, not permitted to be sustaining for
29 reasons of policy presumably outside the realm of
30 economics per se. I would think that subsidy on the



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2 whole would be constructive in helping to maintain a
3 good and equitable rate structure in the rest of the
4 picture rather than a disturbing influence per se.

5 I would not like to see subsidies the effect of which
6 was to impose some kind of structural disorder on a
7 rate structure having all the economic principles
8 otherwise.

9 Q. That does raise the other point though,
10 Dr. Williams, of the role of the state in granting
11 relief or giving assistance to one agency of transpor-
12 tation but it does not do so to the same extent to
13 another. Now, you dealt very extensively with that
14 both in the rationale of federal transportation policy
15 and the federal transportation policy and programme?

16 A. Yes.

17 Q. Now, what I wondered about was how you
18 preserve the neutrality of the group when you give
19 subsidies unilaterally to one agency of transportation?

20 A. Well, I do not think you preserve it
21 at all. We have done it, of course, we have various
22 forms of transportation or at least it could be argued
23 that we have in the States quite a persuasive case
24 made. I think you would fall onto some dangerous
25 ground and perhaps this suggests that there would have to
26 be another criterion that did not occur to me a minute
27 ago because if you were to take a situation where
28 you have active and effective competition between rail
29 and truck over a good rate and for some reason or other
30 -- I do not know what the reason may be, I cannot



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2 imagine what it would be -- suppose for some reason or
3 other there was imposed a hold-down of certain elements
4 of the railroad rate structure within the competitive
5 area and then a subsidy granted. Normally the result
6 of that would be to set in motion conditions that
7 give cause to misuse in the economic sense of the
8 two forms of transportation. I do not know what your
9 practice might be in Canada in respect of the way you
10 support your highway system and your other public
11 facilities, if you conduct all transportation by non-
12 railroad methods. Our problem, of course, has been
13 that we have had substantial government investment in
14 these areas which in so far as the commercial use of
15 these facilities are concerned can be construed as
16 subsidy to non-rail forms of transportation and we have
17 no counterpart in the rail case.

18 Q. Was it with that in mind that your group
19 suggested that federal investment in the United States
20 on transportation ordinarily should be properly planned?

21 A. It was for that reason in part and for
22 another reason which we thought to be rather forceful.
23 We have a fear and I think considerable evidence to
24 support it that we have indulged in an awful lot of
25 wasteful expenditure in waterways improvement and
26 highway improvement as well as in port development and
27 other things of this kind. We thought that we needed
28 a situation not only which came nearer to neutrality
29 as between those types of transportation which is
30 public facilities and the railroad and pipe line



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2 facilities which provided their own facilities but
3 that were also needed rather urgently out of a
4 budgetary concern and what we feared there was
5 substantial wasteful expenditure in those areas.

6 Q. In order to ascertain that it was
7 your recommendation that adequate cost-finding
8 techniques be developed for a form of transportation
9 including exempt transportation?

10 A. Well, I do not suppose we spelled that
11 out, but it would be rather necessary if the thing were
12 to work completely that we have some data with respect
13 to exempt and with respect to private transportation
14 also, especially in the case of both of these forms of
15 transportation, because we have reason to suspect that
16 the operators thereof not infrequently deceive them-
17 selves and, if so, may be operating on false premises.

18 Q. You would require, then, I suppose, the
19 regulatory agency to equip itself to the fullest
20 extent with the means of doing adequate costing.
21 Would that be a necessary consequence?

22 A. Well, it might come down to that. We,
23 I think, may have expressed the hope that much of the
24 basic work of development, more adequate tools for
25 cost analysis could be done by the carriers and
26 expressed the view that indeed with the regulatory
27 system and perhaps the trending result it was
28 an obligation of the carriers. However, I think
29 we had little hope through that process we could
30 develop fruitful comparative cost analyses by the



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2 various forms and we would have to have an approach at
3 the governmental level.

4 Q. I was taking my cue from page 20 of the
5 federal transportation policy where you say:

6 "Temporarily retain a costing base on
7 Form A, provide the ICC with staff and
8 funds to study possible improvements."

9 That is the recommendation.

10 A. That is what we finally came out with.
11 We had some other suggestions at various stages in the
12 game.

13 Q. This, of course, lays the groundwork for
14 my next question which refers to page 37 of your brief
15 where you say under subheading (a):

16 "Where traffic can be retained against
17 competition only at below cost levels,
18 such traffic ought to be shed."

19 On the next page you say:

20 "But rates established close to the level
21 of cost may be allowed, in the absence of
22 continuing review, to fall below a changing
23 cost structure or to fall below the level
24 which changing competitive circumstances
25 require."

26 Now, inherent in both these passages I have quoted is
27 some sort of review or supervision, and my question is,
28 who is to ensure that such a review will take place and
29 will take place properly?

30 A. Well, I would say that in the first



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2 instance it is clearly the responsibility of the
3 carrier to do this type of thing and certainly it is
4 in the interests of the carrier to assist in maintaining
5 rates that are remunerative. It is, of course, a very
6 substantial task to keep a rate structure as compli-
7 cated as this and with which we are familiar under
8 continuing review and examination. It is unhappily
9 true, I think, of most of our railroads, so we run
10 into the situation with the passage of time and
11 precisely this happens. The public authority, I
12 think, so long as we maintain the regulatory system
13 in respect of transportation is entitled to assurances
14 that this process is being performed and being per-
15 formed reasonably well. Nobody would say it could
16 be performed to perfection because it is too complicated
17 a thing for that.

18 Now, how that at least can be got is, of
19 course, a question. In our own feeling about it we
20 have looked upon the thing as almost insisting that it
21 be done at the governmental level so long as we attempt
22 to maintain a situation in which we are sure that rates
23 are compensatory. We are almost compelled to do it
24 publicly because we have such a large number and
25 variety of carriers of all developing' size, commodity
26 scales, commodity attitudes and skills, and so on, I
27 do not see how we could avoid it. Now, whether you
28 need it in Canada I would not be certain, but I would
29 think that in all likelihood the Board of Transport
30 Commissioners would be obliged to ensure itself that



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2 satisfactory procedures were in force to accomplish
3 this object. Otherwise, it would not have the
4 assurance that the situation that Mr. Sinclair was
5 pointing out as relates to your law, as it applies to
6 new rates, is being carried out in the rate structure
7 as well and continued over a time.

8 Q. Do you think cost information so obtained
9 by the regulatory agency should be made public?

10 A. I am all in favour of it myself, I
11 think it is a very useful kind of thing and it has proved
12 in our case to be helpful to shippers and railways alike.
13 It has greatly expedited the process of negotiating
14 rates in numerous situations and it has reduced to
15 manageable proportions at the level of negotiation
16 some things that I am sure would have become contro-
17 versial matters before the regulatory body. We do
18 not like to see things getting into the regulatory
19 process if there are ways of settling them short of
20 that. It has enabled this whole problem of the
21 relationships of competitive carriers to be looked at
22 in some degree and its implications to a greater degree
23 understood than would have been possible without it.
24 We have also territorial groups of motor carriers
25 continuing studies not on the same basis as the railroad,
26 but they have certainly been useful so far as the
27 Commission is concerned under our suspension situation.
28 I do not think you have the equivalent of that under
29 Canadian law but we have had a wide variety of uses
30 for it. Although the publication was resisted by the



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2 railroads at the start I think there has been an in-
3 creasing awareness of their usefulness. Now we are
4 over on the other horn of the dilemma that I mentioned
5 yesterday, that we are afraid perhaps we are contributing
6 too much significance to a particular formula which
7 may not be ideal to meet our requirements.

8 Q. If you have reliable cost statistics
9 for each mode of transportation and you publish them,
10 is there not a danger that you might prejudice one
11 agency of transportation against another because you
12 might give away information of commercial value?

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2 A. We have heard that argument in the United
3 States and I have had a little trouble understanding
4 what it comes to. Observing the way our regulatory
5 system is threatened in any event when we get
6 competitive disputes, and more than 90% of our suspension
7 cases are competitive disputes, it is becoming more and
8 more imperative that if the Commission is to discharge
9 its obligations under the law that it attempt to
10 ascertain which is the carrier relatively most efficient
11 in connection with the traffic in issue. It cannot do
12 that without cost evidence that relates to both sides,
13 or more than two sides if there are, in the competitive
14 relationship; and increasingly that is being done. So,
15 if you do not have continuing published cost scales, at
16 least in our case you always have cost figures that
17 could be described as somewhat representative in a more
18 or less relevant period, and I do not think anybody is
19 too much concerned about disclosing cost figures any more
20 within the regulated area. When you come to the matter
21 of private carriers, that is something else again. We
22 have the same trouble that you do -- which I gather you
23 do -- and they certainly are not anxious to disclose the
24 level of their costs, and to get any of them to testify
25 on the stand as to what that is is a difficult
26 proposition.

27
28 BY MR. PLATT:

29 Q. You have certainly been most helpful and
30 I hesitate to ask this question because I am sure it has



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2 been covered, but I did not quite get it through my head,
3 and that is the control of maximum rates. As you are well
4 aware now, conditions on Canadian railways are much
5 different than in the United States. You understand how
6 our maximum rates are regulated, in a rough sort of way?

7 A. I think so.

8 Q. And you end up with a permissive level and
9 having essentially three groups. Supposing you had no
10 maximum rate regulation at all, and those people could
11 take the full amount -- would continue to take the full
12 amount or more than that, and eventually you would reach
13 a point where it would be a matter of negotiation. Now,
14 if I am a captive shipper with no alternative means of
15 transportation, and have a large output of goods, the
16 railways are not going bankrupt providing they can haul
17 that stuff and still make money. So, it becomes a matter
18 of negotiation?

19 A. Yes.

20 Q. If I did not have much stuff to ship, they
21 would perhaps not be so much concerned, and I may go
22 bankrupt. But, in the overall effect on the economy,
23 would this matter so much? It would be the weaker ones
24 who would be wiped out?

25 A. I think, if I may answer that in a slightly
26 different vein, that the overall effect on the economy
27 that would worry me is not so much the fact that some
28 existing shippers -- possibly, as you say those having
29 limited negotiating power -- might disappear from the
30 scene. What seems to me far more disturbing is that if



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2 this kind of result is prevalent as respects areas having
3 economic resources of considerable usefulness to the
4 economy, this kind of thing stands as a bar to the
5 development of those resources.

6 Q. But if you discover a mine or you have got
7 timber, you will negotiate a rate with the railways so
8 that you can exploit that. If you are going to manufacture
9 something you will certainly not go ahead and move into
10 an area where you are subject to continuing freight
11 increases -- unless you were a real exponent of regional
12 development. So, would it make any difference?

13 A. Yes, it would make a difference, I think,
14 if you propositioned that there was a difference in the
15 basic resource situation. What happens here, in effect,
16 is that if you look into the question of the total cost
17 of producing something on some basis of resources, and
18 maybe the necessary resources are available in an area
19 which has the benefit of competition and is operating with
20 a competitive level of rates both for handling the inbound
21 material which will be processed and handling the outbound
22 goods to the market. There may be another area that falls
23 in this so far non-competitive area which has been
24 taking the increases and they expect they will have to
25 take some more if the same set of factors goes on as has
26 caused the increases in the past. Here you might easily
27 have a better quality of resource, possibly better
28 located in certain respects as to its accessibility as
29 a resource. You may have other elements in the cost
30 structure of transport or manufacturing it that would be



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2 lower than down in the competitive area. The thing that might
3 offset that would be this deterrent of the higher rates
4 or that these rates would take increases. So, you go
5 down here and use the economic resource that in all other
6 respects, except the transportation, cannot be accomplished
7 as cheaply as it could over here. I am making a simplified
8 example to try to illustrate it, but in a great many lines
9 of industry and resource exploitation the freight rates
10 are not without significance, and I think it would
11 certainly be likely that in areas that may be affected
12 by the kind of process you were mentioning, there would be
13 a deterrent to the use of resources that could conceivably
14 be superior to some somewhere else. I cannot say whether
15 that is important in Canada or not, because it depends on
16 a pretty complete analysis of the resource base and what
17 areas we are talking about. But, at least in theory it
18 should certainly, to an economist's mind, do some damage
19 to the efficiency of your economic development to have
20 this kind of a continuing condition.

21 COMMISSIONER PLATT: Thank you, Dr. Williams.
22 I think I will still go and locate my plant where there
23 is competition.

24 THE WITNESS: Well, it is very much the practice
25 of many of our industries, as we have found, to do just
26 that.

27 --- Adjournment ---
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